The Economist

20020420

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers
Subscribe

GLOBAL AGENDA
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters
WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide
SURVEYS
BUSINESS
Management Reading
Business Education
Executive Dialogue
FINANCE & ECONOMICS
Economics Focus
Economics A-Z
SCIENCE & TECHNOLOGY
Technology Quarterly
PEOPLE
Obituary
BOOKS & ARTS
Style Guide
MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
DIVERSIONS
RESEARCH TOOLS
CLASSIFIEDS
DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds
ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go
The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts

Advertisement

Print Edition April 20th 2002

Friendly fire
Why Palestine divides Europe and America ... More on this week's lead article

Previous print editions
Apr 13th 2002
Apr 6th 2002
Mar 30th 2002
Mar 23rd 2002
Mar 16th 2002

More print editions and covers »

Subscribe
Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

The world this week
Politics this week
Business this week

Leaders
The war against terrorism
Friendly fire

The flattening of Jenin
Israel's "war crime"

France's presidential election
Exceptionally odd

Venezuela
Chavez redux

Cartels
Fair play, free markets

Britain's budget
Gordon Brown's manifesto

Letters
America and Israel, the Middle East, house prices, archaeology, Texas

Special Report
America's intelligence services
Time for a rethink

The British economy
Continental drift

United States
Foreign policy
It works at home

Hunting al-Qaeda
The elusive prey

The budget
A call to arms

The death penalty
Eighty-five ways to stay alive

Ozzy Osbourne's return
Reality bites the bat

Control of the Senate
War for Talent

Affirmative action
Sweat, not blood

Lexington
Poor Tom

The Americas
Politics in Venezuela
After the coup, the reckoning

Politics in Brazil
Praying for votes

Mexico's foreign policy
The Cuba test

Cuba's foreign policy
Big row, small change

Asia
America and Afghanistan
Stand by me

Drugs in Afghanistan
The poppies bloom again

India's ruling party
Shameless

Hong Kong and dissidents
One country, two systems

A survey of Japan
What ails Japan?
How did it get into this mess?
Corruption, construction, conservatism
Consensus and contraction
Lionheart to the rescue?
The regions that can say no
East, west, home's best
Transition, not transformation
Offer to readers

Business
Cartels
Fixing for a fight

Airlines in America
Saturday night fever

European cable
Borrowed time

Making money online
The Internet sells its soul

Managing professional services
Like herding cats

German takeovers
Bun fight

Food flavourings
Vanilla thriller

Russian oil
Gluttons for punishment?

Face value
Messier than ever

Finance & Economics
Consumer finance in Asia
The new spendthrifts

South Korean consumers
Plastic bubble

The European Central Bank
Position filled

America and the IMF/World Bank
What leadership?

Russian audits
Brother's keeper?

Enron's ghost
Recharging

BBVA
Offshore mysteries

Japan's banks
Surreal

Economics focus
More bubble and squeak

Correction

Science & Technology
Health in the wild
Animal doctors

China
Working on the highway

Thailand
Party like it's 2545

Middle East & Africa

What happened at Jenin
Under the rubble of the refugee camp

Bethlehem under siege
Sanctuary in the church

Powell as peace-maker
His master's voice

Congolese peace talks
Snapping at peace

Africa's rescue plan
Words and deeds

Uganda's rebel child-soldiers
The lord's army resists

Europe

A challenge in Italy
Silvio Berlusconi is put to the test

France's presidential election
The widest-ever choice

France's election
Slap happy

Dutch politics
Old massacre, new casualties

Russia's presidential message
Putin's frustration

Turkey's Kurds
No change?

Charlemagne
Renate Künast, would-be farm reformer

Britain

The budget
Gordon's gamble

The budget
Gordon's box

Coal mining
Bottomless pits

Miners' compensation
The £6 billion bill

Juries
Derry's U-turn

Public sculpture
Getting it up

Golf
Crouching Tiger

DJs
Turning the tables

Bagehot
In praise of older men

Articles flagged with this icon are printed only in the British edition of *The Economist*

Evolutionary biology
No argie-bargie

Eradicating polio
Kalashnikovs and coolboxes

Books & Arts

The sinking of the Lusitania
In harm's way

Writers' lives
Breadth doesn't mean depth

Selling lifestyle
The two faces of Martha

American and Brazilian bestsellers
What the world is reading

The rebirth of Italian film
The moment is now

Hugh Grant

Obituary

Frederick Stare

Economic and Financial Indicators

Overview
Output, demand and jobs
Prices and wages
Office rents
Money and interest rates
The Economist commodity price index
Stockmarkets
Trade, exchange rates and budgets
Tax burden

Emerging-Market Indicators

Overview
Asian economies
Economy
Financial markets

Advertisement

Classifieds

Jobs
Senior Business Manager Opportunities
BE CHALLENGED SENIOR BUSINESS MANAGER OPPORTUNITIES We are see....

Business / Consumer
WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders
Economic Advice to the European Commission (EC) Delegation Kigali, Rwanda
Economic Advice to the European Comm....

Jobs
Senior Manager/Advisor
Senior Manager/ Advisor Management Systems International (MSI), an internation....

Tenders
Request for Proposals: A course on Budget Policies and Investments for Children
Request for Proposals: ....

Jobs
Technical Adviser/Shelter and Community Infrastructure/Emergen Response Team
Technical Advisor/Shelter and Communi....

Sponsors' feature About sponsorship »

Copyright © The Economist Newspaper Limited 2006. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Produced by = ECO PDF TEAM =
Thanks xxmama

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Politics this week

Apr 18th 2002
From The Economist print edition

Under the rubble

AP

After keeping everybody out for a week, the Israelis allowed some outsiders into **Jenin** refugee camp. They found a scene of devastation, with an unknown number of bodies—up to 500, said the Palestinians—crushed beneath the rubble. Colin Powell ended his ten-day visit to the region without a ceasefire but having extracted an Israeli commitment that its tanks might get out of the centre of most of the towns it has invaded this weekend.

See article: What happened at Jenin

Marwan Barghouti, a prominent **Palestinian** politician who leads Fatah in the West Bank and controls one of the militias, was captured by Israeli soldiers and will, Israel says, be put on trial.

Al-Qaeda reportedly claimed responsibility for last week's explosion at a synagogue on the Tunisian island of **Djerba**. The blast killed 16 people, ten of them German. A man arrested by the German police was released without charge.

The **South African** government announced a change in its policy on using anti-retroviral drugs in the treatment of AIDS. After years of scepticism, the cabinet now says the drugs "could help improve the condition of people living with AIDS".

The **Congolese peace talks** at Sun City in South Africa wavered towards some kind of agreement. The sticking-point is power-sharing between the government and the two main rebel factions.

See article: Congolese peace talks

After **Madagascar's** Supreme Court had annulled the results of a disputed election in December, the two rival presidential candidates met on the fringes of an African summit being held in Senegal. Didier Ratsiraka, the incumbent, and Marc Ravalomanana, who has declared himself president, are now expected to sign an agreement defusing the country's political crisis.

In an out-of-court settlement between **Nigeria's** government and the family of the late Sani Abacha, $1 billion that the military ruler looted from the central bank and stashed in banks worldwide will be returned to Nigeria.

Speak no evil

George Bush renewed his campaign against the "**axis of evil**", but this time failed to name Iran, Iraq and North Korea as members. He also called for a development plan for Afghanistan, on the lines of the Marshall plan that rebuilt Europe after the second world war.

See article: America and Afghanistan

Reuters

The pope summoned **America's cardinals** to Rome for a special meeting to discuss the child-abuse scandal that has stricken the Catholic church in the United States.

Al Gore attacked Mr Bush for letting **America's economy** “suffer unnecessarily”. Mr Bush asked Congress to make his tax cut, which runs out in 2010, permanent. The Democrats said no.

See article: Can George Bush curb government spending?

On free-speech grounds, the Supreme Court of the United States struck down a six-year-old law outlawing “virtual” **child pornography**, which uses computer imagery to depict children. In another blow to the Department of Justice, a federal judge upheld Oregon's assisted-suicide law.

Striking Berlusconi

Italy's three big trade-union confederations, acting together for once, stopped the country with an eight-hour general strike, the first since 1982. The main targets: labour-law reforms that would make it easier to sack employees—and Silvio Berlusconi's government of the right.

See article: Silvio Berlusconi's government is put to the test

In **France**, opinion polls suggested a small lead for Jacques Chirac over Lionel Jospin in the first round of the presidential election on April 21st—and an overall majority of disgruntled voters against these two leading candidates.

See article: The French vote for a president

The **Dutch** government resigned after the report of an inquiry investigating Dutch responsibility for a massacre of Bosnian Muslims by Bosnian Serbs in a UN “safe haven” near Srebrenica in 1995. With an election due on May 15th, the outgoing prime minister, Wim Kok, was asked to carry on as a caretaker.

See article: The Dutch government resigns

In a state-of-the-union address, **Russia's** president, Vladimir Putin, said that the military phase of the conflict in Chechnya was “over”. On the same day, at least 13 police were killed by rebel bombs in Grozny, Chechnya's capital.

See article: Russia's impatient Vladimir Putin

A long-awaited draft from the European Commission of a new **EU fisheries policy** was postponed. Spain had objections; France had objections and upcoming elections, too.

Under heavy fire for the deterioration of public services, notably health care, **Britain's** government brought in a tax-raising budget, supposedly to finance improvements. But would voters, supposedly happy to pay up, truly be so?

See article: The risks Gordon Brown is taking to save the NHS

Revolving presidency

Venezuela's president, Hugo Chavez, was briefly ousted when a general strike ended in a military coup. But when the interim government scrapped the constitution the army stepped in again, restoring Mr Chavez. The United States did not condemn the coup; Latin America did. In all, some 50 people died.

See article: After Venezuela's coup

Alvaro Uribe, who heads the opinion polls for next month's presidential election in **Colombia**, curtailed his public appearances after surviving a bomb blast that wrecked his armoured jeep, killed three people and injured 13.

Juan Carlos Wasmosy, president of **Paraguay** in 1993-98, was sentenced to four years in jail for

embezzling state funds, though he remains free pending an appeal.

In **Argentina**, pressure mounted on President Eduardo Duhalde's government. In some provinces, public employees demonstrated against budget cuts and there was still no sign of a long-awaited IMF loan agreement.

Return of the king

Reuters

Mohammed Zahir Shah, who was deposed as king in 1973 after ruling **Afghanistan** for 40 years, arrived home escorted by the interim prime minister, Hamid Karzai. The king, who will not regain his throne, hopes to act as a symbol of national reconciliation.

A former guerrilla leader, Xanana Gusmao, was elected **East Timor's** first president.

India's BJP-led government almost collapsed as a key ally threatened to leave the ruling coalition because of the party's failure to censure the chief minister of Gujarat, where hundreds of people died in religious violence last month.

See article: Politics in India

Stay informed this week and every week

Sign up to receive *The Economist*'s round-up of business and politics each week. These e-mail newsletters are free and will keep you up-to-date on the latest developments around the world. Sign up here.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Business this week

Apr 18th 2002
From The Economist print edition

The axe falls

In a tough week for Jean-Marie Messier, **Vivendi's** boss cancelled a Caribbean holiday to make time to sack Pierre Lescure, the over-independent chief executive of **Canal Plus**, a loss-making pay-TV unit, only days after the departure of Mr Lescure's deputy. Uproar followed from France's establishment, which fears that Canal Plus may not remain a staunch defender of French cultural exceptionalism for much longer.

See article: Face value: Jean-Marie Messier

United Pan-Europe Communications, a heavily indebted cable group, announced losses for 2001 of *euro*4.4 billion ($3.9 billion), up from *euro*2 billion in 2000. The Dutch-based company's shares plunged amid concerns that bankruptcy beckoned, as debt-restructuring negotiations dragged on. UPC has around *euro*11.2 billion in debts, some of which it hopes to convert to equity.

NTL, Britain's biggest cable operation, announced a long-awaited restructuring of its debts. Some $10.6 billion out of a total of over $17 billion will be swapped for equity to head off a financial crunch. The deal must be approved by other creditors that have lent some $6 billion.

Hewlett-Packard said that its shareholders had approved its takeover of Compaq Computer by a 2.8% margin, enough for it to go through despite any court challenges to the voting. Separately, the Securities and Exchange Commission cited HP over its relationship with Deutsche Bank, an HP shareholder. And the district attorney's office for the southern district of New York asked for documents about the votes of Deutsche and Northern Trust, which is the subject of dispute.

Barilla's taste for carbohydrates turned bitter after the world's biggest pasta maker had its offer of close to *euro*1 billion ($890m) sent back to the kitchen by **Kamps**, Europe's biggest baker. Barilla will have to make its offer more palatable if it is to swallow up the German firm.

Loss of goodwill

Ford, the world's second-largest car maker, lost $800m in the first quarter compared with a profit of $1.1 billion a year ago. Part of the loss was attributable to new accounting standards which forced Ford to write off goodwill from acquisitions, including $708m at Kwik-Fit, its British car-repair chain.

Boeing reported a loss of $1.25 billion in the first quarter. It wrote off $1.8 billion of goodwill.

Coca-Cola lost $125m in the first quarter, its first loss in 20 years, after the world's leading soft-drink company accounted for the falling value of acquisitions to the tune of $926m.

Russian roulette

Auditor-bashing broke out in unfamiliar territory: Russia. Foreign investors started legal action against PricewaterhouseCoopers over its audit of Gazprom, a partly state-owned gas giant, alleging a failure to detect asset-stripping. “False and misleading”, said overseas shareholders of the audit; “completely unfounded” responded PwC.

See article: Troubled Russian audits

Rumours of an imminent settlement between **Andersen** and the Department of Justice over the criminal indictment of the accounting firm over its audit of Enron proved premature, after the lawyers for several interested parties fell out.

In a big vote of confidence **BP** made an about-turn with a big investment in Russia, after getting its fingers burned last time. The British oil company exhibited few fears about the financial probity of Russian business, raising its stake in Sidanco, a Russian oil firm, from 10% to 25%, at a cost of $375m.

In the bank

The EU's wavering spirit of consensus manifested itself in the nomination for vice-president of the **European Central Bank**. Lucas Papademos, governor of Greece's central bank and an inflation hawk, got the nod only after Belgium's finance minister, favouring his own candidate, abstained after fraught discussions.

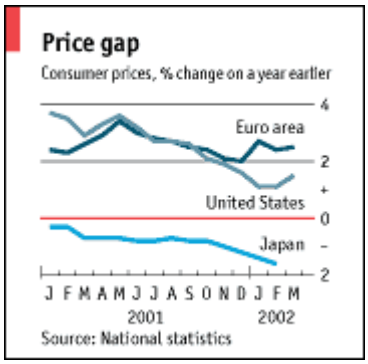
See article: Succession at the ECB

J.P. Morgan Chase announced that profits had dipped to $982m in the first quarter, compared with $1.2 billion a year earlier. The firm's investment-banking operation contributed the bulk of the profit. **Merrill Lynch**, the world's leading stockbroker, also suffered a first-quarter decline in profits to $647m, down from $874m a year ago.

GE Capital, the financial-services arm of General Electric, is to cut 7,000 jobs out of a total of 90,000 and save a further $1 billion in 2003 as a way of boosting profits. The company also made big job cuts last year.

Prices rising

America's consumer prices rose by 0.3% in March. Inflation hit 1.5% over the year to March, as rising energy costs hit home. Prices continued rising in the euro area too; by 0.6% in March alone, and by 2.5% over the year.



Stay informed this week and every week

Sign up to receive *The Economist*'s round-up of business and politics each week. These e-mail newsletters are free and will keep you up-to-date on the latest developments around the world. Sign up here.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The war against terrorism

Friendly fire

Apr 18th 2002
From The Economist print edition

Why Palestine divides Europe and America

Get article background

THANKS mainly to his comportment since September 11th, George Bush stands tall in American opinion. America's standing in the world is another matter. As the sympathy that followed the destruction of the twin towers fades, the admiration Mr Bush earned for victory in Afghanistan is being pushed aside by complaints about the rest of his “war against terrorism”. In the Muslim world, of course, but also in much of Europe, the uneven battles on the West Bank have encouraged demonstrators to burn the American flag on the streets, alongside the flag of Israel. But even before those battles, European politicians were lining up to denounce Mr Bush's “simplistic” foreign policy and deplore America's preponderance in the world. The loyalty to Mr Bush shown by Britain's prime minister, Tony Blair, had begun to alienate not only Britain's EU partners but also his own Labour Party.

Guilt by association

This rift was visible before Ariel Sharon invaded the West Bank. But Mr Sharon has made the rift suddenly deeper. America is not responsible for the fighting, still less for its grisly climax in what may turn out to have been a war crime in Jenin (see article). But as the provider of Israel's sword and furnisher of its diplomatic shield, America is being held responsible. In most of the world, but not America, pictures of the bulldozed refugee camp plaster the front pages. To an extent that Americans do not realise, being blamed for Israel's actions is ripping up the coalition Mr Bush took such pains to knit together last September. How can he patch it back together?

From Europe, the answer looks simple. To save his coalition, Mr Bush needs to put the squeeze on Mr Sharon. Only thus, it is argued, can Israel be persuaded to make the compromises necessary for peace. And even if squeezing Mr Sharon does not lead to peace, being seen by the Arab street to squeeze him is the only way to persuade fragile Arab regimes to stay on America's side in the larger war against terrorism. Instead, Mr Bush appeared, first, to give Israel's invasion of the West Bank a green light; and then not to mean what he said when he called a fortnight ago for Israel to withdraw “immediately”. At best, Europeans say, this makes America look ineffectual. At worst, it plays into the hands of Osama bin Laden and his associates, who accuse “the Jews and the Americans” of waging war against Islam. Europe cannot understand America's failure to see this.

What Europeans fail to see is that, precisely because of his steadfastness in the war against terrorism, Mr Bush is widely admired in America. When he is criticised there, it is not for arming and shielding Israel but for sending Colin Powell, his secretary of state, to talk to Yasser Arafat, terrorist recidivist, and for suggesting that Israel might curtail its own war against terrorism. This, say the critics, smudges his previous “moral clarity”. September 11th gave Americans at large—not just Jews, and not just politicians influenced by the Israel lobby—special reasons to shudder at the onslaught on Israel by Muslim suicide bombers determined to kill as many civilians as possible. Long before then, Americans learnt to identify more with the beleaguered Israelis than the thwarted Palestinians. Above all, Americans cannot understand why some

Americans cannot understand why some Europeans dignify terrorism as legitimate “resistance” to an occupation which, but for Palestinian

Europeans dignify terrorism as legitimate “resistance” to an occupation which, but for Palestinian intransigence, Israel's previous government would have ended anyway.

intransigence, Israel's previous government would have ended anyway

You do not have to resolve the merits of these two views of the conflict to see the danger that this cross-Atlantic incomprehension poses to the post-September coalition. European leaders were squeamish enough before Mr Sharon's war about Mr Bush's plans to take his campaign on to Iraq and other members of the “axis of evil”. The accelerated killing gives them every reason to say that this must not happen while the West Bank is on fire, lest it unleashes the pan-Islamic rage Mr bin Laden was aiming to provoke. America's Arab friends say so too—though they made it clear at the Beirut summit that ended before Mr Sharon's re-invasion that they were not up for another swipe against Saddam anyway. In a funny way, Palestine gets Mr Bush's reluctant allies off the hook. While Mr Sharon is on the rampage, they are less likely to be roped into unwanted American adventures further afield.

How does Mr Bush propose to end this rift? Not by selling Israel down the river: Mr Powell flew home with Israeli tanks still in the West Bank and Mr Arafat still stewing under siege in Ramallah. Nor, probably, by resuming the aloofness that characterised his initial handling of the Middle East. For all their criticism of American zigzagging, Mr Bush's European critics need to recognise that this is a president improvising responses to a baffling crisis. It would be wrong to confuse his immediate plan to achieve quiet—by piling pressure on Mr Arafat to call off the *intifada*—with his longer-term thinking. Mr Bush has, after all, spent the past weeks stating more plainly than any predecessor that America wants an independent Palestine and Israel back more or less to its 1967 border.

Timing the squeeze

Empty words? At some point, it is true, getting an Israel under a Mr Sharon to accept such terms will require Mr Bush to apply that squeeze. With the domestic political capital he has collected since September 11th, he could certainly do so, especially if it seemed that supporting Israel was beginning to damage America's own security. But remember “moral clarity”: the Europeans should not expect Mr Bush to pressurise Israel in circumstances that seemed to appease terrorism. In other words, Mr Arafat must accept—in good faith, this time—the principle underpinning the Oslo accords, which is that negotiating peace is not compatible with a terrorist war.

If they were serious about helping the Palestinians to statehood, Europeans would explain this to the Palestinians morning and night, instead of hailing the *intifada*, as many do, as “resistance”. The *intifada* it was that helped Mr Sharon to power, destroyed Israel's peace camp and turned Americans off the Palestinian cause. After September 11th, Americans feel that they too are at risk, and at war. Europeans do not.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The flattening of Jenin

Israel's “war crime”

Apr 18th 2002
From The Economist print edition

War is terrible—but there are rules. Did Israel observe them?

Get article background

Reuters

THE stinking ruins of the refugee camp in Jenin are a grotesque spectacle whose consequences will long be felt by all parties to the Middle Eastern tragedy. Ghastly enough as it was in reality, the story of Jenin will be retold, and distorted, in the lore of Jews and Arabs for generations to come.

Some will cite the events there as evidence of the hypocrisy of a West which wants Serbia, as the price for economic aid, to co-operate with a war-crimes tribunal whose jurisdiction covers the “wanton destruction of cities, towns or villages”. Others will point to the killing of 7,000 Bosnians in Srebrenica as the kind of atrocity to which words like “massacre” properly apply—and say that using such words of killing on a much smaller scale, however ugly, distorts and misleads.

To begin settling this argument, it is worth asking whether the actions which led to the wreckage of Jenin were technically war crimes—in other words, a gross violation of the laws of war. These laws try to sharpen two distinctions which are never entirely clear: between peace and armed conflict, and between soldiers and non-combatants. Once a conflict starts, the parties are entitled to kill combatants (even those not engaged in fighting), but they must spare and succour non-combatants and wounded fighters. When non-combatants die, that is not proof that their killers broke the law, but the onus is on the attackers to show that they tried to spare civilians.

When non-combatants die, that is not proof that their killers broke the law, but the onus is on the attackers to show that they tried to spare civilians

The fighting between Israelis and Palestinians does meet the definition of armed conflict, one in which both sides have organised structures and control certain places. So it was not illegal for Israel to seek out and kill members of the Palestinian militias, or for the Palestinians to hit back. Palestinian attacks on army checkpoints are an act of war, not a war crime, whereas blowing up buses and restaurants grossly flouts the law. Still, the fact that Israel has suffered criminal attacks does not remove its own duty to observe humanitarian norms.

Any army fighting a popular militia has hard choices. Guerrillas blur the line between combatants and non-combatants. At best this will force the other side to hold back; at worst it will tempt the stronger party into over-reacting. Were the Israeli army's choices technically legitimate? Can there be any ground, under the laws of war, for flattening people's homes, without waiting, as alleged in some cases, to warn the residents? It is not yet possible for outsiders to assess the scale on which homes were destroyed with civilians inside; or to assess the claims by Jenin's residents that their town is a “mass grave”. The Israelis certainly have a case to answer. They will defend their legal corner by saying that homes in Jenin became fair targets when fighters started firing from them.

At least tend the wounded

What seems clearer is that the Israeli authorities did breach those laws of war which require them to care for non-combatants and the wounded. The plight of women, children and the elderly in Jenin has been gravely exacerbated by the denial of access to medical workers, food and water. There is a terrible

cruelty in the way many combatants and non-combatants alike died slowly of their wounds, in Jenin and elsewhere. The world does not yet know what horrors remain to be uncovered. By itself, the fate of the wounded and the helpless in Jenin undermines the Israeli claim that it scrupulously observed the laws of war. It is a tribute to Israel's democracy that some Israelis are saying so too.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

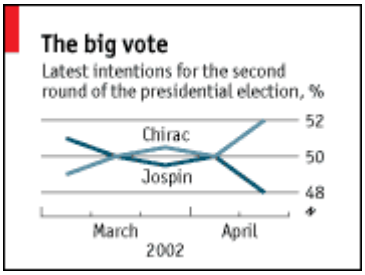
France's presidential election

Exceptionally odd

Apr 18th 2002
From The Economist print edition

France has been doing rather well. Its voters seem displeased

Get article background



A GOOD 40% of the voters in one of the world's suavest and best educated electorates seem bent on casting their ballots this weekend for a rum assortment of communists (adherents of Leon Trotsky to the fore), xenophobes and potty populists, all vying for France's grandest job. Of the 16 candidates, only one frankly espouses a mix of social and economic liberalism: he should get about 3% of the vote.

Apathy, winsome nostalgia and fist-waving frivolity are running neck-and-neck. In a way, none of it matters. The incumbent conservative president, Jacques Chirac, and the present Socialist prime minister, Lionel Jospin, awkwardly bedded together in a loveless “co-habitation” for the past five years, will probably each take a modest fifth or so of the vote in round one. That will be enough to move them through to a two-man run-off on May 5th. But why this seeming disdain for those who have been running the country, in Mr Chirac's case for the past seven years, in Mr Jospin's for the past five?

After all, France remains one of the most prosperous countries in the world. In the past five years its economy has grown perkily, at an average of 2.8% a year, a whisker faster than Britain's and far more bouncily than groggy Germany's (1.8%) or messy Italy's (2%). Unemployment, though too high at 9% and edging up again, has come down by a quarter. Taxes are being cut a bit. Mr Jospin's introduction of a 35-hour week without a drop in pay has gone down well with workers and, it is claimed, has enabled many companies to use their labour more flexibly. France's public services—certainly its trains, roads and hospitals—are among the best in the world. You might have thought that Messrs Chirac and Jospin, inevitably arguing over how to apportion the praise, would be able to take some credit and win a bit more of the voters' respect.

Evidently not. One reason (see article) is the mathematical quirkiness of a two-round election in which people think they can vote merrily or angrily with their hearts in the first bout but soberly and sensibly with their heads in the second. The 40% who plump for the extremes may just be letting off Gallic steam. But another, bigger, reason is the extraordinary and increasingly misplaced loyalty that so many French voters have to the so-called “French exception”, and their corresponding suspicion of the supposedly brutal capitalism prevalent in the United States and Britain. Politicians with no real prospect of power are free to indulge those sentiments without asking what putting them into practice would mean.

Given this, perhaps the greatest oddity is that France has willy-nilly been edging towards a more “Anglo-Saxon” way of doing business. More of the French state, even under a Socialist prime minister, has been sold into private hands than ever before. Labour costs have been trimmed. The resulting gap between exceptionalist rhetoric and capitalist reality is growing. Witness the recent uproar when one of France's most prominent businessmen, Jean-Marie Messier, boss of Vivendi, a big media company (see article), declared that “the French cultural exception is dead.” This peculiar sensitivity means that mainstream French politicians cannot candidly discuss the future. Mr Jospin cannot bear to concede that he has privatised anything; he has merely “opened public companies to capital”; Mr Chirac is barely less timid in extolling the virtues of a free market. This reluctance to ditch warm rhetoric in favour of cold truths is worsened by a readiness, in both main political camps, to retreat from further needed reforms in the face of protests on the streets or in the workplace.

The gap between exceptionalist rhetoric and capitalist reality is growing, and as a result mainstream French politicians cannot candidly discuss the future

What a pity. France's grudging liberalisation has had much to do with its recent success. If the country liberalised more, it would succeed more. The high rate of structural unemployment will not nudge down much further without more drastic tax and welfare changes, less red tape and a much looser labour market. The benefits of the 35-hour week may yet cramp French competitiveness and make public services less efficient; they will certainly harm small businesses, where the new law has yet to take effect. French pensions need a complete overhaul: the system is becoming unaffordable. So does the health service. The civil service is far too big. On all these issues, neither leading candidate has proposed anything radical or courageous.

Please talk seriously once the loonies have gone

France is culturally and commercially impressive. But no longer is it exceptional in the sense that it can stand gloriously aloof from the sweep of the global economy, protecting its own businesses and movies, pretending to maintain a system that is neither capitalist fish nor socialist fowl, promoting a foreign policy that can no longer make a difference on its own. The presidential election, to date, has been notable for a dismal lack of candour about where the country is going or should go. Will that change in the next round? Probably not, but here's hoping.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Venezuela

Chavez redux

Apr 18th 2002
From The Economist print edition

In democracies, bad leaders are voted out not deposed

Get article background

EPA

FOR several days at the end of last week, Venezuela staged the sort of tragi-comedy that was common in Latin America a generation ago. After civilian supporters of President Hugo Chavez had fired on a huge protest march, a faction in the armed forces staged a bloodless coup. The generals arrested Mr Chavez and installed as president Pedro Carmona, the leader of the private business lobby. A mere 48 hours later, Mr Chavez was back, restored to power by his own supporters in the army, and it was Mr Carmona's turn to be arrested. In the course of it all, some 60 people were killed.

These events bode ill for the future of Venezuela. The world's fourth-largest oil exporter is now even more polarised between supporters and opponents of Mr Chavez. But none of this came as a great surprise. Ever since his election in 1998, Mr Chavez has cut an anachronistic figure. His long-winded blustering against a corrupt “oligarchy” in the name of “Bolivarian revolution”, his concentration of power in his own hands, his reliance on army officers and his appointment of worn-out Marxist professors to government were all reminiscent of an old-fashioned Latin American *caudillo*. He struck up a close friendship with Cuba's Fidel Castro and cosied up to countries such as Iraq and Libya.

For all this, Mr Chavez has not been repressive. Nor has he turned his country into a second Cuba. Though his instincts are authoritarian, he has respected democratic forms. His main fault is incompetence: his government scared off investors, failed to use high oil prices to fuel growth and did nothing to tackle poverty, crime and corruption.

As his popularity waned, Mr Chavez faced bolder and broader opposition, to which he responded by taking ever wilder steps. First he rammed through decree-laws expropriating some land and raising taxes on some foreign investors. Then he sought to seize direct control over Petroleos de Venezuela (PDVSA), the state oil company. That triggered a general strike by workers and bosses, and led, as Mr Chavez seemed to want, to last week's confrontation.

By turning legitimate protest into a coup, the opposition fumbled a golden opportunity to curb Mr Chavez's power and showed a contempt for democracy greater than his own. In his moment of hubris, the unelected Mr Carmona, a manager of a petrochemical firm, decreed the dissolution of the National Assembly, elected less than two years ago (and in which Mr Chavez now enjoys only a narrow majority), and the Supreme Court. He named a cabinet consisting of his business friends, living up to Mr Chavez's caricature of him as an oligarch.

What now? Though less popular than he was, Mr Chavez still enjoys more backing than any single leader of the divided opposition. He has backed off from his takeover of PDVSA, but restored his grip on the armed forces (see article). Even so, his advantage could prove short-lived. Though a new constitution allows him to remain in office until 2007, last week's events suggest that the armed forces have the final say.

An ominous silence from the north

This makes the reaction of the United States all the more worrying. Latin American presidents were quick to condemn the coup against Mr Chavez. But America, which claims to champion democracy in Latin America, held back. Worse, there are reports, still unconfirmed, that American officials knew that a coup was being plotted and gave the plot encouragement. If this is true, it would suggest extraordinary short-sightedness by Latin America's mighty neighbour. A message that George Bush welcomed the overthrow of inconvenient elected politicians would be noted in barracks everywhere.

That is the last thing the region needs. Three South American republics—Argentina, Ecuador and Paraguay—already have presidents who owe their jobs to the forceful removal of an elected predecessor (although, unlike Mr Carmona, each successor was at least chosen by his country's legislature). Democratic stability is under strain in Latin America. However much it deplores Mr Chavez, the United States should make it clear that he must not be removed by unconstitutional means. For his part, Mr Chavez would do well to stop posturing and start heeding the grievances of the opposition.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Cartels

Fair play, free markets

Apr 18th 2002
From The Economist print edition

When choosing how to fight cartels, remember deregulation

INVESTIGATORS are raiding companies' offices all over Europe these days. Their quarry is not terrorists or their money, but conspiring company bosses. And the crime they are fighting is price-fixing.

Many theorists will tell you that price-fixing conspiracies fall apart under the pressure of market forces—which is usually true, in the long run. In the meantime, the cost of collusion can be enormous. Price-fixers harm the entire economy. Consumers have to pay more for goods and services, and get less choice. Price-fixing also undermines faith in the benefits of markets, such as it is.

In America, authorities have been adopting fierce measures against price-fixing, on and off, for over a hundred years. Bosses are routinely sent to jail, and their companies can be forced to pay fines equal to three times the estimated damages. Europe has been slow to come around to this, but in the past few years it too has been pounding hard on cartels. Fines and dawn raids have reached new highs. In Britain, moves are afoot that would criminalise cartels more severely even than in America.

Across the world, regulators are beefing up enforcement and looking for evidence of price-fixing in a wider range of markets and industries (see article). This is welcome. Jail sentences and big fines help to focus company chiefs' minds on the rules, making them think twice about carving up markets or entering into price agreements with their supposed competitors. Yet too much of the war on cartels has focused on the old-fashioned parts of the economy, from tobacco and commodities to construction and vitamins.

In one way, this emphasis makes sense, since cartels are easier to spot in sales of nearly identical things, or in the rigging of bids for the same project. But metal-bashers and builders are not the only price-riggers. Since America wrote most of its competition laws, its economy, like much of the rich world's, has been transformed by a shift from manufacturing to services. Today, service industries such as health care, education, entertainment and telecoms dominate the economy. Yet attempts to tackle these businesses' cartels, some of which are deeply entrenched, have until recently been few and far between. That is changing, as the competition authorities take a closer look at services such as banking.

The liberalising lesson

Although nabbing scheming executives is to be applauded, cartels often have a silent accomplice in government. In America as well as Europe, cartels can be as much a product of rules that were designed to limit competition as of greedy bosses. Air transport is one example where a history of regulation, of both prices and landing rights, has led to a shortage of competition. Government regulations over health care are also breeding-grounds for cartels. British authorities have recently taken drug companies to task over alleged price-fixing for sales to the National Health Service—even though the NHS itself fixes many drug prices in co-operation with the industry.

Sometimes, governments cannot seem to decide whether they want competition at all. Vodafone, now under investigation for its high charges for connections to foreign mobile-telephone networks, was earlier chastised for overly aggressive price-cutting. Nor is overt regulation the only problem. Many governments turn a blind eye toward professional associations that limit competition. Doctors' and lawyers' professional bodies can, for example, set minimum prices or control the supply of new entrants. Governments should take a much closer look at all such barriers to competition in professional services.

A decade ago, the administration of George Bush senior tackled the efforts of American universities to collude in setting student aid. His son's administration should show similar vigour elsewhere.

Greater international co-operation over price-fixing investigations would also help. Bosses from De Beers, the diamond producer, are blacklisted from the United States, for example, but they remain free to travel and do business elsewhere. And the biggest cartel of all has escaped scrutiny: OPEC. The politics of tackling it might be awkward, admittedly. But what a prize, one day, for some brave cartel-buster.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Britain's budget

Gordon Brown's manifesto

Apr 18th 2002
From The Economist print edition

Britain's chancellor says he wants to boost enterprise. That's not what his budget says

Get article background

Gettyone

“WAS it possible that they could swallow that?” wondered Winston Smith, the hero of George Orwell's “Nineteen Eighty-Four”, after a particularly egregious bit of governmental spin. Similarly incredulous thoughts are probably going through the minds of those in Downing Street and the Treasury after Gordon Brown's sixth budget.

Actually, Britain's voters have been asked to swallow two things. The easier one to get down, maybe, is the brazen claim that the government has not broken any promises in this budget. In spirit, it has. In its manifestos for the 1997 and 2001 elections, Labour promised not to raise income tax. Mr Brown now says he will put an extra percentage point on National Insurance Contributions—a curious remnant of an old state-run social-insurance system, levied along with income tax on people's pay packets.

NICs are barely distinguishable from income tax, except in that they are levied only up to a ceiling of around £30,000. There is no ceiling on this extra new percentage point. So Mr Brown has not raised “income tax”; he has simply changed the incidence of NICs so that, in part, they are exactly the same thing, and raised that instead. It tastes pretty bad, but it will go down without too much struggle, because it is a lie that has been carefully market-tested and people knew it was coming.

The bigger thing that Britain is being asked to swallow—and this really is a challenge—is the claim that this was a budget for enterprise. According to Mr Brown, “enterprise” (a word he used 12 times in his speech) is, along with “fairness”, the theme not just of this budget but also of his government. Presumably, the prime minister agrees. Anybody actually engaged in enterprise will be much harder to convince.

The importance of being Gordon

Margaret Thatcher famously described Nigel Lawson as “my brilliant chancellor”. Tony Blair's failure to gush similarly about Mr Brown probably has more to do with the chancellor's prime ministerial ambitions than it has with Mr Brown's performance. Indeed, the budget speech might have been written to deepen the frown visible on Mr Blair's forehead as it was delivered. The chancellor cast his personal beneficence widely across the nation—on families, children, lone parents, the elderly, the unemployed, schools, hospitals, small companies and even on small breweries. “I” appeared 101 times in the speech; Mr Blair not once. There is little sign that the chancellor regards the prime minister or any of his colleagues in cabinet as “brilliant”, or even present in government.

Yet it is hard for Mr Blair to complain. After all, the government's greatest achievements are Mr Brown's. He has done the most important things a chancellor can do: keep prices stable and avoid aggravating the economic cycle. Under Mr Brown, for the first time in a long time, Britain can feel proud of its economic performance. Inflation is lower than almost anywhere else in the rich world, and growth higher.

Luck, of course, had a lot to do with it. The previous government restored the economy to stability, and Britain has continued to reap the benefits of Margaret Thatcher's liberalisations. But Mr Brown's emphasis

on “stability” and “growth” in the first term must be allowed its share of the credit. He could have messed things up, and he didn't. Now, five years on, Mr Brown wants to work on his new themes. Having sorted out the country's macroeconomics, he plans to redesign its microeconomics. His vision is of a Britain which sits mid-way between America (enterprise) and Europe (fairness), allowing business to grow fast while providing its people with good social services. Can the models be blended that way? Perhaps they can—but Mr Brown's budget choices inspire little confidence.

A sense of direction

The chancellor's approach to taxes is consistent as to overall trend—up—but in the detail is paralysingly complicated. The man's determination to tweak and tune borders on compulsion: new codes are announced, it seems, even before previously announced new codes have come into effect. The move towards an equivalent of America's earned-income tax credit (a key part of the fairness programme, albeit borrowed from the wrong side) does make sense. Some of his meddling incentives for favoured kinds of business have been welcomed by the beneficiaries, unsurprisingly. Overall, though, Mr Brown's approach to taxes has been to let distortions proliferate, serving neither fairness nor efficiency.

The chancellor's entrepreneurial rhetoric makes his approach to public services look particularly odd. Plainly, many of Britain's public services need more money spent on them. Britons are fed up with sitting on stationary trains and seeing their grannies lined up on trolleys in hospital corridors. In focusing on the health service, Mr Brown believes that he is responding to voters' concerns. That much is true.

But there are many ways to raise and spend money on health: through private insurance, as in America, through social insurance, as in much of Europe, or partly through charges, as in France. The problem with the way that Mr Brown has chosen to do it—through general taxation—is that it will do nothing to make the NHS less monolithic or centrally controlled. This is downright hostile to enterprise. Mr Brown has set himself against the possibility of competition between providers and the choice for consumers that is its natural consequence. The government refuses to consider new ways of financing health care in Britain; instead, Mr Brown wants to “renew a shared national consensus” around the NHS.

The NHS is a troubling totem for Mr Brown to have chosen. With more than a million workers, it is the largest employer in Europe, with the possible exception of the Russian armed forces. Its centralised system of control stifles innovation. Its IT system is a disaster. It is demoralised. That it lies at the centre of a budget which is supposed to be about enterprise says something deeply worrying about the world view of the man who would be prime minister, and in most ways already is.

“Yes, they swallowed it,” concluded Winston Smith, gloomily. The British public should spit it out.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Letters

Apr 18th 2002
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

America's Jewish lobby

SIR – Lexington's article on the Jewish lobby (April 6th) commits the error most likely to smudge any clarity in the war on terror: confusing one group of terrorists with another. Cultural commonalities do explain the bulk of American-Israeli cosiness but to suggest that Israel's effort to "tear up terrorist networks" is in America's national interest is off track.

The Palestinian terrorists do not have "global reach" and thus, by George Bush's definition, do not terrorise America. If America calls Israel's terrorists its own it will be harder to say that Russia's Chechens and the like are not. If America lets others define its enemies it will be fighting endless battles. American interests are best served by keeping the definition of terrorism consistent.

Megan Barke
Washington, DC

SIR – Would it change your mind about the influence of the Jewish lobby in America if I told you that an article entitled "Israel Is Not America's Greatest Ally" and captioned, "It's time to recognise that Israel's interests do not always match up with America's" is printed in the April 8th edition of *Newsweek International* (Atlantic edition) but not in the magazine's domestic edition.

Richard Partridge
Princeton, New Jersey

SIR – Americans support Israel because the Jewish lobby's enormous influence has shaped the terms of the debate. Many Americans believe that Israel is a brave little democracy courageously fighting a war against international terrorists because that is what they are told repeatedly by the media and politicians. If they had been told that Israel is in fact a brutal occupying power with an essentially racist ideology and that it is adept at fleecing the United States Treasury, Americans might well respond differently.

Philip Giraldi
Purcellville, Virginia

Prospects for peace

SIR – You state that Israel's failure to withdraw its forces from the West Bank has "blackened its name in the court of world opinion" ("From here to Palestine", April 13th). However, Israel began its attacks only after the Palestinians refused to agree to General Anthony Zinni's request for a ceasefire; Israel did agree to a ceasefire. The Palestinian response was a series of deadly suicide bombings.

Your suggestion of an imposed peace without negotiations is unrealistic. Why not send an international armed force, you ask, to take charge of security in the areas under Yasser Arafat's control? If the Israeli army is unable to prevent suicide bombings, any international force will also certainly fail. Such a force cannot be expected to have the motivation or the expertise to control the Palestinian terrorism. At least Israel has succeeded in decreasing the number of suicide attacks. As it continues its squeeze on the terrorists, the number will become even fewer.

The only realistic solution to the present situation would appear to be negotiations in good faith by both

sides. America and the rest of the world should direct efforts to that end and can play a useful role as mediators. A mediator, however, must be neutral. At a minimum, that means publicly acknowledging the right of Israel to retaliate forcefully against attacks on its citizens.

Sinclair Kossoff
Chicago

Home truths

SIR – Homeowners generally occupy their property as their primary residence ("The houses that saved the world", March 30th). Although market values may rise, owner-occupiers are normally unable to realise much profit by selling at a higher price; they would then need a replacement home, also at a higher price. Therefore, the main benefit of rising house prices for a homeowner lies in providing increased collateral for extended borrowing, usually to cover consumption expenditure. A later market slump exposes homeowners to the danger of "negative equity".

Instead of borrowing as much as possible against the collateral of their property, homeowners should increase their home equity—whenever economically feasible—as a protection against hardship in times of need, such as unemployment or retirement.

Christian Donner
Vienna

SIR – By what logic is house-price inflation a continuing source of celebration for economists? The media convey a sense of doom to the nation when house prices ease and rejoicing when inflation resumes. Yet under the guidance of economists, governments pledge themselves to low single-figure inflation as essential to national wealth. What about house prices?

John McIntyre
Farnham, Surrey

Other side of the coin

SIR – Numismatics has been studied and enjoyed by amateurs since at least the Renaissance. Yet many archaeologists view with disdain all private collecting, even of items as undeniably common as ancient coins, often linking collecting with looting and the destruction of the archaeological record ("Can you dig it?", March 30th). This dogma is based on a false premise. Most so-called "looting" occurs when local people make discoveries by chance or design on private land—sites never likely to be under active archaeological investigation.

If anything, the archaeological establishment's obsession with "context" over all else raises its own serious ethical issues. For example, ancient coins found at archaeological sites are seen as useful for dating purposes but little else. Archaeologists who specialise in numismatics criticise their archaeological brethren because numismatic items are almost never published, properly excavated or recorded. Moreover, once found these items are rarely displayed and are mostly left to deteriorate in some forgotten box on a shelf somewhere. The same fate awaits most of the other common artefacts of the sort that are sometimes found on Internet-auction sites. Given such practices, perhaps eBay and the like are not such a bad alternative.

Peter Tompa
Washington, DC

SIR – Your article on the ethical problems facing archaeologists overlooks archaeology's dirty secret: the failure of many field archaeologists to write up and publish fully in timely fashion the results of their researches. Digging, no matter how scientific, is by its nature destructive.

An archaeologist who neglects to publish a final report on a dig in a reasonable time is no more ethical (perhaps far less so) than an impoverished, third-world peasant looting the artefacts of his ancestors to support his family. Not one penny should go to any researcher until the results of his last big excavation are actually in print.

Michael Coe

New Haven, Connecticut

Big talk

SIR – As a Texan living in Britain, I am surprised by a caption to a picture of President Johnson that says "Lyndon was bigger than Texas" ("Big book, big man", April 6th). As we from Texas know, this statement is nonsensical because nothing is bigger than Texas. Texas is the platonic ideal of bigness; the biggest one can get is "as big as Texas".

Paul Domjan
Oxford

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

America's intelligence services

Time for a rethink

Apr 18th 2002 | WASHINGTON, DC
From The Economist print edition

Just when they are most needed, America's spies are in a mess. But reform will happen only if George Bush wants it

Get article background

IMAGINE a huge $30-billion conglomerate. It operates in one of the few businesses that might genuinely be described as cut-throat. Its competitors have changed dramatically, and so have its products and technologies. But its structure is the same as when it was founded, in 1947. Nobody leads this colossus (there is just an honorary chairman) and everyone exploits it. Demoralised and bureaucratic, it has just endured its biggest-ever loss. The response: the firm has been given even more money, and nobody has been sacked.

Soon, the intelligence committees from the two houses of Congress will begin a special joint review of America's spies. The joint chairmen, Congressman Porter Goss and Senator Bob Graham, both insist that reform is possible. But structural change depends on the administration, and George Bush has already backed George Tenet, the Director of Central Intelligence (DCI), who staggeringly refuses to admit that September 11th was a failure. “Failure”, says Mr Tenet, “means no focus, no attention, no discipline—and those were not present in what either we or the FBI did here and around the world.”

The best protection for the intelligence services is that so few people understand what they do. Most Americans associate espionage with the Central Intelligence Agency and the DCI, the most conspicuous creations of the 1947 National Security Act. In fact, the “intelligence community” contains 13 federal organisations, and the CIA accounts for only around a tenth of the intelligence budget of $30 billion. Most of the real money goes to high-tech military agencies, such as the National Reconnaissance Office (NRO), which runs the satellites, and the National Imagery and Mapping Agency (NIMA). The biggest, the National Security Agency (NSA), once so secret that it was referred to as No Such Agency, employs 30,000 eavesdroppers. By contrast, the CIA's Directorate of Operations—its human spying bit—has only around 4,000 people.

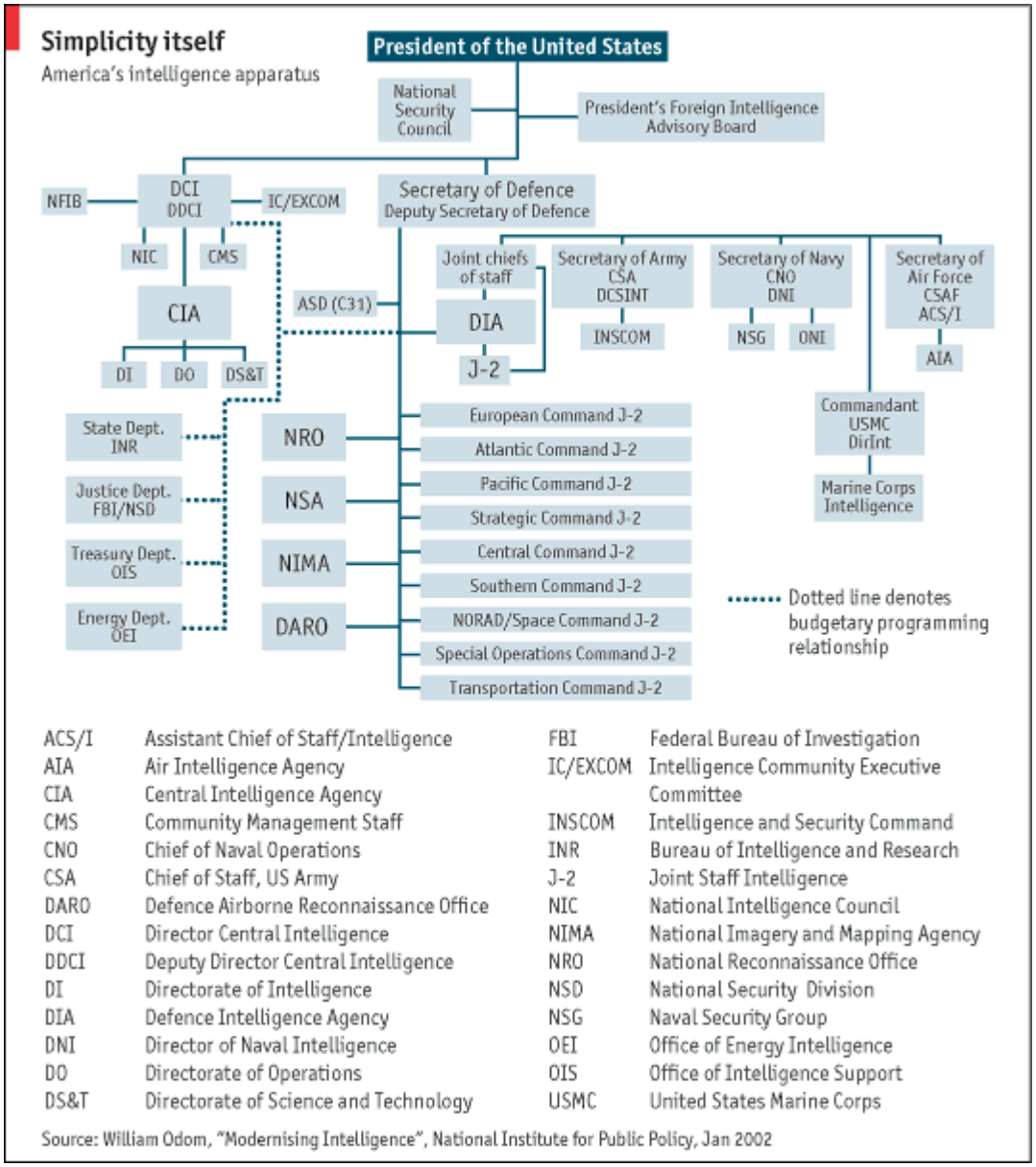
Some critics argue that the true cost of intelligence-gathering is closer to $50 billion, and the number of agencies dealing with the subject is closer to 45 (or even 100). They count in various bits of the FBI (which oversees counter-intelligence at home), parts of the new Office of Homeland Security, and sundry military and diplomatic organisations. Generally speaking, the system gets more convoluted the lower down you go, eventually becoming a blur of incompatible computer systems, different chains of command and an obtuse budgeting system.

Above all, there is the question of responsibility. Mr Tenet, as DCI, is both boss of the CIA and also

director of all America's intelligence-gathering. He has a “community management staff” to assist him, but his real clout is small. Most of the intelligence budget is controlled by proper departments, whose bosses sit in the cabinet. Jim Woolsey, a former DCI, recalls that his predecessor, Bob Gates, warned him that his position was like the king's in medieval France: the nobles all swear fealty to you, but do not fear you.

Blown to pieces

Many people think this tangled structure (see chart) caused the failures around September 11th. Others point to mismanagement, culture and even the American way of life. Who is right?



The mismanagement school of critics, which wants Mr Tenet's head, can only be buttressed by the pig-headed refusal of the seventh floor at Langley to admit to any failure. The excuses proffered vary. Some pass the buck around the labyrinth: CIA people point out that it was the FBI's job to trail terrorists at home. Others point to the list of atrocities that have been averted, which is fair enough, though at least one of the examples, the capture of a bomber with Los Angeles airport as his target, owed more to an observant customs official than to good intelligence.

Al-Qaeda, America's spymasters tried to claim, was peculiarly difficult to infiltrate, since it was open only to kinsmen of members. That notion was blown apart by the appearance of John Walker Lindh, a Californian airhead, in Osama bin Laden's trenches. As one former CIA boss puts it, “Al-Qaeda was an evangelical organisation: it wanted members. We never suggested any.”

Enough. By any reasonable definition, the fact that 19 terrorists could slaughter 3,000 people should count as a monumental failure of intelligence—the worst since Pearl Harbour. Besides, as one senior Bush adviser argues, “it is not as if there were not enough clues to be picked up for our $30 billion a year.” The World Trade Centre was a known target; al-Qaeda people had plotted to fly aircraft into buildings before; a suspect had been picked up having flying lessons; and so on.

Those who point to gross mismanagement are, however, currently less influential than the “culture” critics. According to these, Mr Tenet is less culpable than symptomatic of an intelligence community that has been in steady decline, held back by political correctness and an over-reliance on technology. Crucially, this explanation fits the political agenda of both the spies and the Bush administration.

Reined-in and risk-averse

Some trace the decline to the 1970s, when, after a series of scandals, the CIA was reined in by Congress. Many Republicans prefer to start with Bill Clinton, who, they claim, was unwilling to wage war on terrorism. In 1996, in the wake of the murder of a Guatemalan by a CIA informant, officers were told to contact Langley before “establishing a relationship with an individual who has committed serious crimes or human-rights abuses or other repugnant acts.” Nobody has been turned down under these guidelines. But they cannot have encouraged CIA people to make friends with, say, drug-smugglers.

Even defenders of the spy system admit it has a job-for-life mentality

The idea that the Directorate of Operations became risk-averse has been widely promoted by frustrated ex-case-officers. In “See No Evil” (Crown, 2002), Robert Baer recalls how in Tajikistan in the early 1990s he asked for Dari and Pushtu speakers to interrogate Afghan refugees. He was first told that the CIA no longer collected data on Afghanistan, then offered a four-person sexual-harassment briefing team. Even defenders of the spy system admit it has a job-for-life mentality. John Gannon, a CIA analyst who has just moved to the private sector, says that he has fired more people in the past eight months than during his entire career in the service.

Yet daredevilry has never been more needed. During the cold war, an intelligence system that relied on intercepting Soviet military signals and picking up diplomatic gossip made sense. Now there are no ponderous tank divisions to track; and you are unlikely to meet your opposite number from al-Qaeda at the Brazilian ambassador's cocktail party.

In last July's *Atlantic Monthly*, Reuel Marc Gerecht, who worked for the agency in the Middle East, labelled America's counter-terrorism effort in the Arab world “a myth”. An active spy describes coverage of Iran as “embarrassing” (America has not had an embassy there since 1979). A Bush adviser furiously says that “the White House has discovered more about *madrassas* [fundamentalist Islamic schools] in the papers during the past three months than we got from the intelligence system in the previous six years.”

The sheer lack of American knowledge about some areas of the world has led to a form of poker game between its allies. For instance, European intelligence services that know the Arab world have been keen to balance information that Israel “spoonfeeds” to America. (All the spies, however, grudgingly admire Israel's masterly exposure of an Iranian-financed attempt to smuggle weapons to the Palestinians, which ensured Iran's insertion in the “axis of evil” speech and Mr Arafat's temporary excommunication by Mr Bush.)

There are “cultural” problems at home, too. America has no equivalent of MI5, Britain's domestic intelligence agency. The FBI is a law-enforcement agency: it looks for people breaking the law and arrests them. Intelligence-gathering is based on watching people, regardless of whether they break the law, and arresting them is often counter-productive.

Needless to say, there is not much love lost between the FBI and the CIA. Indeed, turf-consciousness spreads throughout the many domestic agencies that should play some part in intelligence-collection: witness the lousy sharing of information about the September 11th hijackers between the FBI, the Immigration and Naturalisation Service and local cops. The coordinating Office of Homeland Security (see article) has had little impact.

No James Bonds

Many spooks think the most important cultural barrier is a startlingly simple one: Americans do not like spying. There is no local equivalent of James Bond; in fiction, spies are mostly portrayed as right-wing lunatics or bungling fools. Americans are less interested in going overseas than other people are, and they stick out more when they do. Even during the CIA's mythical heyday during the cold war, nearly all its best agents were freedom- or cash-loving traitors who offered their services without prompting. And the agency has never been that good on the Islamic world.

More important, at home Americans value privacy more than most other people. They hate the security cameras that Europeans tolerate. They have opposed attempts to share knowledge about, say, suspicious movements of foreigners. One former CIA chief speculates that you could call September 11th "the failure of the ideology of the open society".

Some of these cultural shortcomings are now being addressed. Rules about recruiting dubious people have been relaxed. Some of the language gaps are being closed. The CIA alone has received more than 60,000 job applications. Many spies think that this will be enough.

That seems wrong in at least two fundamental ways. First, the current obsession with human intelligence downplays the importance of its technological equivalent. Here, though America unquestionably leads the world, a variety of technical problems still need to be fixed.

The NSA, for instance, has far too many old, incompatible computer systems, and finds it difficult to eavesdrop on fibre-optic cables. There is a row about whether the NRO should buy ever bigger, ever more expensive satellites, as the defence industry wants, or whether surveillance could be better achieved by smaller systems, not all of them space-based. At NIMA, there is the challenge of making imagery systems three-dimensional.

General William Odom, a former head of the NSA, says the intelligence community has received as much new technology as big companies like IBM, but has undergone none of the structural reforms of the sort seen in the private sector. The technical agencies are also struggling to deal with the huge amount of "open-source" information now available. At present, the technology often works best as a retrospective tool rather than a forward-looking one. After September 11th, all sorts of details were tracked down in America's digital vaults, but only once people knew the names to look for.

Telling the satellites and phone-taps where to look is also getting ever harder. Mr Gannon points back to 1998. Before the year began, he allocated the CIA's analytic resources to the priorities that had been established with the White House. In fact, more than 50% of the actual crises that year occurred in "lower-priority areas", and many of the biggest ones, such as the global financial crisis, the Kosovo war and India's nuclear test, were unanticipated.

Technology aside, the view that more manpower will make up the intelligence deficit is wrong for another reason. Structural problems often underlie the cultural ones. At the micro level, analysts are moved around too quickly. Mr Gerecht suggests that the best way to improve human intelligence rapidly would be to move spies out of the embassies. Above all, there is the question of who controls what. When the CIA's spy satellites missed India's nuclear test, this was surely because the satellites were run by generals interested in tanks.

The chief spook and his enemies

"Reforming" America's intelligence services is not simply a matter of getting better people and giving them more money and a slightly freer hand. The structure needs modernising from top to bottom.

Like anybody who has been copiously rewarded for doing bad work, America's intelligence services seem strangely caught between paranoia and arrogance. Staff at the CIA's Counter-Terrorist Centre joke that the only way they can spend the hundreds of millions of dollars they now have is to upgrade themselves on trips from business class to first class. Mr Tenet seems to have ridden the storm, and has even collected the odd plaudit for the spies' current work in Afghanistan.

His supporters point out that the former Senate intelligence staffer is more than just a political hack. His five-year reign has brought stability, and he has both the president's ear and political *nous* (he named the CIA's headquarters after Mr Bush's father). Moreover, Mr Tenet, who is said even by his detractors to be adept at covering his back, warned the Bush administration several times during the summer about the possibility of a bin Laden attack. Cynical spies point out that, had he been sacked, Mr Tenet might

have contradicted the Bush administration's claim that it has always been more vigilant than its predecessor—something that does not seem to have been true before September 11th.

Recently, a commission chaired by Brent Scowcroft, a former national security adviser, came up with a proposal to put the three main technical agencies (NSA, NRO and NIMA) under Mr Tenet's control. The first reaction of the defence secretary, Donald Rumsfeld, was to squash this. It was not just a matter of turf-protection: military men point out that the vast majority of signals intercepts and imaging will always be for the Pentagon. On the other hand, the current system plainly puts the intelligence services second.

Few in Washington expect radicalism from the new joint congressional committee. Congressman Goss is a former CIA man; so is the staff director of the inquiry, who also used to work for Mr Tenet in his Senate committee days. More generally, Senator Graham talks gloomily about intelligence reform running into an iron triangle of the executive agency, its departmental backer and outside interests.

The idea of a cumbersome bureaucracy limping on simply because nobody can face reforming it is depressingly unAmerican. The grounds for hope begin with some of the people involved. Messrs Graham and Goss are generally respected by their peers. Ask either man how he might redesign the intelligence system, if he had a free hand, and both come up with radical solutions. Others whisper that Mr Rumsfeld, who is known to be appalled by the chaos, might be willing to support dramatic reform providing there was a comprehensive plan. Even Mr Tenet has a vested interest in reform: at present, he risks a place in history as the captain who did not go down with his sinking ship.

Wholesale reform would be relatively easy to enforce. Most changes could be brought about by an executive order from the president. Mr Tenet also has far more room to be brutal: spies' jobs are theoretically less well protected than those of other bureaucrats.

Out of Langley

What should be done? Given the fact that nothing has really changed for 50 years, the list is long. Two big jobs, however, stick out. The first is that the intelligence community needs a proper chief executive—not another token tsar, but one with real budgetary power over the technical military agencies (and with far more power over who runs them). As a corollary, this new *über*-DCI should be taken out of Langley, and a separate person should run the CIA. One reason why reform has always failed is that it has usually been seen in the Defence Department as a power-grab by the CIA.

One difficult question is how much of the actual analysis needs to be centred around this new DCI. Some duplication is inevitable—every general wants to have his own intelligence analysis. And the sheer number of agencies may be less of a problem than the fact that most of them act as vertical “stovepipes”—an insane idea for a community that is supposed to be collecting information. Congress should be less interested in how much money is being spent at NIMA than in how much is being spent fighting bioterrorism.

The other priority is to break down the artificial barrier between intelligence-gathering at home and abroad. Any thought of increased surveillance at home will annoy Americans and increase their worries about civil liberties. That is why it will need political bravery from Mr Bush. But September 11th illustrated the shortcomings of a 50-year-old intelligence system. Senator Graham argues that it is basic Darwinism: “If you don't understand changes in your habitat, you will die.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The British economy

Continental drift

Apr 18th 2002
From The Economist print edition

Gordon Brown's budget marks a further step towards Britain's convergence with the European Union. Paradoxically, it makes an early referendum on joining the euro less likely

Get article background

ONLY a short stretch of water separates Britain from continental Europe, but often it seems that the Channel is wider than the Atlantic. Many of Britain's difficulties as a member of the European Union have arisen because its economy and politics have tended to move more in line with America than with the rest of the EU. This is changing under Tony Blair's Labour government, as taxes are raised in order to finance the commitment to raise health spending to European levels. Historians may judge the budget which Gordon Brown, the chancellor of the exchequer, delivered this week as a watershed in Britain's economic destiny: the moment that Britain decided it was more European than American.

Under the Conservative governments of the 1980s and 1990s, Britain looked to American free-market ways rather than to Europe's social-welfare model for ideas on economic reform. Until now, New Labour has sought to keep a foot in both camps. Mr Blair has zealously maintained the special relationship with the United States while seeking to rebuild bridges in Europe, not least by stating his commitment in principle to joining the euro. For his part, Mr Brown has sought to blend American dynamism with European-style social cohesion and public services.

Even before the budget, it was clear that this year would reveal exactly where Britain is heading. Ever since Labour won its second landslide victory last June, two pivotal economic events lay ahead, both falling this year. One is the decision whether or not to join the euro in this parliament. If a referendum is to be held in spring 2003, the most likely date, the Treasury will have to reach a judgment on whether to recommend euro membership by the end of the year. The other is this week's budget, which sets out how Labour is planning to back its ambition for improved public services with hard cash until 2005, when the next election is expected to be held.

In fact, the two are necessarily linked, since if Britain is to join the euro in this parliament it will be operating within a new budgetary framework, in which Britain would have to abide by the stability pact for fiscal policy within the euro area. Furthermore, the overall budgetary stance will help to determine whether Britain could join the euro at an acceptable (lower) exchange-rate, by giving the Bank of England scope to ease monetary policy.

Converging in more ways than one

But the issue of euro membership and this week's budget are linked in a more profound way. Britain

already meets all the “convergence tests” set out in the Maastricht treaty of 1992, bar the condition about exchange-rate stability, which is expected to be fudged through a political deal. Indeed, an OECD report on the British economy in June 2000 concluded that “on several scores, even as an ‘out', the United Kingdom is projected to be as close, or even closer, to the economic centre of gravity of the euro area than some of the current ‘ins'.”

Price stability is one of the formal Maastricht conditions. On this count, Britain has been super-converging. Since autumn 1999, Britain's inflation rate has been lower than the average in the euro area and for the past year it has been the lowest among all EU countries. Low public debt is another criterion, and here again Britain can hold its head high: gross government debt, at less than 40% of GDP at the end of 2001, was the third-lowest in the EU. Long-term interest rates have also converged with those in the euro area, satisfying another of the Maastricht criteria.

Whether this convergence is sustainable and durable lies at the heart of Gordon Brown's own tests. The Treasury used these to rule out entry in 1997, but a new assessment of them has now started. The question is how to evaluate the recent evidence that Britain's economy has been moving more in line with Europe's, given its historical tendency to march more in step with America's. John Hawksworth, an economist at PricewaterhouseCoopers (PWC), an accountancy firm, says that it is too early to dismiss Britain's historic links with the American business cycle, given the chancellor's conviction that the economic case for joining the euro should be “clear and unambiguous”.

But there is another kind of convergence—one which the Maastricht criteria and the chancellor's tests do not consider, but which is more important for Britain's long-term economic future. Is Britain converging on the European social model of high tax and spending and heavy-handed regulation of business? And is it doing so while the rest of the EU moves in the other direction?

The very question causes Mr Brown to bristle. Notoriously impatient with the carousel of European ministerial meetings, he chooses, unlike the prime minister, to take his holidays in America, whence he draws so much of his inspiration. The chancellor seeks to inject American dynamism into Britain's economy by encouraging competition. After getting Labour's first term off to a flying start by making the Bank of England independent, he sought to repeat the trick at the start of the second term by announcing a much more bracing competition regime, including new powers to lock up businessmen who fix prices.

Mr Brown also emulates America in his goal to turn Britain into a land of entrepreneurs

Mr Brown also emulates America in his goal to turn Britain into a land of entrepreneurs. A persistent theme of his budgets has been a desire to encourage new start-up businesses and to foster a more vibrant venture-capital industry to support them. This budget was no exception. Mr Brown lowered corporation tax for smaller businesses and abolished it for very small companies. This extra relief comes on top of additional measures that he had already announced to create “enterprise neighbourhoods” in poor areas.

The chancellor is patently sincere in his desire to encourage enterprise, and no doubt some of these measures are helpful—although it is hard to keep track of them. In its most recent survey of the British economy at the end of last year, the OECD said that “the regulatory environment, broadly defined, inhibits competition less than in most other OECD countries,” and that “entrepreneurs generally face a better business environment in the UK than in most other OECD countries.”

The question about this judgment is whether it is behind the curve. Many employers would blow a loud raspberry at it. Businessmen give Mr Brown due credit for his management of the economy: the chancellor has delivered the great prize of economic stability, although manufacturing has experienced a serious bust. But the burden of red tape has brought loud complaints. The British Chambers of Commerce (BCC) estimates that a slew of new regulations has cost business £15 billion ($22 billion) in the five years to May 2002.

Some of the burden that business complains about comes from policies such as the working families' tax credit (WFTC), which were modelled on American ways of boosting the incomes of low earners with benefits paid through the pay packet. Whatever its genesis or rationale, small employers in particular find that the WFTC is an administrative headache that costs them money to deal with. Other measures, like the minimum wage, are policies that are used not just in other European countries but in America. Yet others come from the chancellor's penchant for changing recently-introduced measures. The capital-gains tax regime is subject to constant revision; and the WFTC, introduced only in October 1999, will be radically restructured next year.

Costs of compliance

However, most of the burden comes from complying with European legislation—a clear indication of the way in which Britain is being drawn inexorably towards the European model. The most onerous is the working-time directive, which the BCC reckons is costing business over £2 billion a year. That EU directive was introduced as part of the programme to create a single market in Europe. Others, like the introduction of works councils in European multinationals, have come in under the EU's social chapter and result from Labour's decision to give up the opt-out which John Major's government secured when negotiating the Maastricht treaty.

So far, these changes, which also include new recognition rights for trade unions, have not materially affected Britain's labour-market flexibility—one of the principal gains of the Thatcher era. Richard Freeman, co-director of the London School of Economics' Centre for Economic Performance, says that “from an international perspective, Britain's trade unions remain weak.” Britain's employment rate is considerably higher than that of the euro area, and its unemployment rate is considerably lower. But this comparison masks the fact that other countries in the EU have just as good a record in making their labour market work successfully. Sweden, Denmark and the Netherlands have even higher employment rates, and the Dutch unemployment rate is much lower than Britain's. Between 1998 and 2000, according to the OECD, economic growth was more productive of jobs in the euro area than in Britain or America.

A more welcome convergence, for Britain, would be if its labour productivity could increase to the levels common in the rest of the EU. That does not seem to be happening: Britain's productivity growth was disappointing in the second half of the 1990s. On the other hand, the divergence that occurred in the post-war period through to the 1970s, as productivity grew more rapidly in other European economies, appears to have ended. In the judgment of Nicholas Crafts, an economic historian at the London School of Economics, relative economic decline in comparison with Europe “has ceased, but has not been substantially reversed.”

The narrowing tax divide

Employers complain not just about the rush of new regulations but about the rising burden of taxation under Labour. According to the Confederation of British Industry, businesses and shareholders bore the brunt of Mr Brown's tax-raising measures in Labour's first term, paying £6 billion a year more in tax from 1997 to 2001. The CBI calculates that British business is heavily taxed by international standards. In this week's budget, employer national insurance contributions (NICS) are going up next year by 1% of pay, a £4 billion cost increase for business. Digby Jones, the CBI's director-general, worries that “we are losing our reputation as a low-tax economy: Britain takes more tax out of business than Germany and that is not where we want to be.”

Overall, taxes rose by 2.7% of GDP—£26 billion—in Labour's first term of office. Most of this was not the result of Mr Brown's tax-raising measures in his first two budgets. Instead, it occurred because tax receipts were buoyant, growing more rapidly than national income. Income tax in particular grew unexpectedly fast,

partly because growth in earnings turned more and more people into higher-rate taxpayers. As tax revenues shot up in Britain, the gap between Britain's tax burden and that of the euro area began to narrow.

In both Britain and the rest of Europe, the effect of last year's economic slowdown has been to reduce the tax take. But Mr Brown has responded energetically with the tax increases set out in the budget, arguing that they are essential to secure a better health service. Employees and the self-employed, as well as employers, are paying higher NICS. A five-year commitment to increase NHS expenditure by 7.4% a year in real terms will increase its share of GDP by 1.6% over the same period. The tax burden will rise by a similar proportion of national income by 2005-06.

While Mr Brown is raising taxes to fund better public services, taxes are coming down in France and Germany. According to the National Institute of Economic and Social Research, further reductions in Germany next year will be worth around *euro*20 billion ($18 billion) or almost 1% of GDP. One difference with Britain is that Germany is already running a large budget deficit of more than 2% of GDP. The European Commission is harrying governments in the euro area to meet the objective set out in the stability pact and balance their budgets. Until this year's elections in France and Germany are over, it will not be clear whether they will raise taxes or cut spending to achieve this, but the political pressures are to keep taxes down. “Governments in the euro area generally want to cut spending to balance their budgets,” says David Walton, chief European economist at Goldman Sachs.

By contrast, Britain's Labour government is now making the case to tax and spend in a way that it regarded as politically unacceptable in the 1990s. That principle breached, there are any number of candidates for higher spending waiting in the wings. Take the government's target to cut the incidence of child poverty by a half by 2010, which would bring it into line with the European average. On April 11th, new figures showed that the government had missed the intermediate objective in its first term by a long way. If it is to meet its target of halving child poverty, the Institute for Fiscal Studies (IFS) estimates that it will have to raise spending on benefits to poor families by 1% of GDP, equivalent to £10 billion, four times the extra support for children announced in the budget.

With Britain's government now making the case for tax and spend, there are any number of candidates for higher spending waiting in the wings

Other pressures in the pipeline include the massive backlog of work required to modernise Britain's dilapidated transport infrastructure. “If we want to have European-style public services, then there is no escape from raising our spending and taxation towards European levels,” says Andrew Dilnot, director of the IFS.

One principal point of difference, looking ahead, is the cost of state pensions. Since private pensions are widespread in Britain, the government has to spend only 5% of GDP on state pensions, half the European average. The government thinks that it can hold the line at around this level by freezing the real value of the basic state pension and extending private-pension provision, whereas projections for the EU show further increases. But Mr Brown's strategy looks increasingly in jeopardy as take-up of the new stakeholder pension, designed to extend the reach of private pensions, has been disappointing. In 2000, a pensioner revolt forced the chancellor to promise real increases in the basic pension for two years. From 2003, the incomes of half of all pensioner households will be bolstered with the pension credit, whose eventual cost will rise to about 1% of GDP, according to calculations by Mr Hawksworth of PWC. Still larger increases may well be necessary to fend off further pensioner revolts.

And so to the euro?

If Britain is converging in so many ways with the rest of Europe, this may seem to make joining the euro more likely. However, the pressure to raise spending on public services, thus converging with European standards, makes it less likely in the immediate future. If Mr Brown were making euro membership a priority, he would have to take steps to get the exchange rate down. On most analyses, the pound is

considerably over-valued against the euro, so locking currencies at its current rate would be highly risky. One way in which the chancellor could help would be to tighten fiscal policy. This would allow the Bank of England to keep interest rates lower than would otherwise be the case, which should in principle help to weaken the exchange rate. But the government's net borrowing is increasing between 2001-02 and 2003-04 by 1% of GDP—the reverse of what is required.

Mr Brown's big ambitions for better public services make it difficult to join the euro in this parliament on other grounds. At the moment, the chancellor can cock a snook at the European Commission when it says that his budget plans are flouting the stability pact's objective of a balanced budget. But if Britain were to join the euro, then the constraint of the stability pact—though weakened when Germany escaped a warning in February—would become more binding. Instead of being able to borrow to invest, Mr Brown would have to finance higher public investment through taxes.

There is a third reason why Mr Brown will be wary of joining the euro too soon. With such big commitments promised for the NHS stretching five years ahead, he has made the public finances a hostage to fortune. If the economy were to turn down, then the Labour government would find itself in a fix. The Treasury is convinced that it has established a much more stable regime for managing the economy by allowing the Bank of England to set interest rates to meet the chancellor's target for inflation. It is reluctant to dump this successful formula and replace it with the European Central Bank until the ECB is reformed along similar lines.

In the long run, Britain's continental drift probably does makes euro membership more likely. After all, it is easier to join a club whose members are similar to oneself. But there is a lot of water to cross between here and there; and the difficulty of turning Britain into a country that fits well with Europe makes the prospect of signing up in the short term more remote.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Foreign policy

It works at home

Apr 18th 2002 | WASHINGTON, DC
From The Economist print edition

AP

The calculations that lie behind George Bush's diplomacy

IT SEEMED like a week of drift and failure in American foreign policy. Most obviously, Colin Powell returned from the Middle East without a ceasefire. Hugo Chavez, the Venezuelan president loathed by the White House, swept back into power after a bumbling coup of which America—alone in the western hemisphere—had approved. The administration says it pleaded with the coup leaders not to suspend the National Assembly, but that merely raised questions about whether the administration was cynically stage-managing the dismal attempt to kick Mr Chavez out.

Meanwhile, the administration had to admit that it had almost certainly let Osama bin Laden slip through its fingers during fighting around Tora Bora at the end of last year. It concluded, according to the *Washington Post*, "that failure to commit US ground troops to hunt him was its gravest error in the war against al-Qaeda."

And to top it all off, George Bush seemed to be facing, for the first time, some significant public opposition to his foreign policies. Tens of thousands of people gathered on the steps of Congress to demand that the administration back Ariel Sharon more strongly and not negotiate with Yasser Arafat. They even booed Paul Wolfowitz, one of the most hawkish members of the administration.

Yet against this confused background, Mr Bush chose to make one of the strongest defences yet of his post-September 11th foreign policy. At a speech to a military academy in Virginia on April 17th, he repeated and justified his criticism of the "axis of evil". He reiterated his view that Mr Arafat not only had to denounce "homicide bombers" but take action against them. And he warned Saddam Hussein that the Taliban was merely the first government to fall in the war against terror.

Has Mr Bush become completely divorced from the reality of world politics? No. The president has always said there would be setbacks in his foreign policy but that he would not be put off by them. This week showed not only that he meant what he said, but that—at the moment—he retains public support for his stance.

The trick that Mr Bush is currently pulling off is typified, paradoxically, by that rally in Washington—the largest pro-Israel demonstration (its organisers claim) since the foundation of Israel in 1948. For America's allies, this underlines their growing differences with the United States. Everywhere else, the large demonstrations have been in favour of the Palestinians. A new transatlantic poll by the Pew Research Centre shows that Americans sympathise with the Israelis by a three-to-one margin, while Europeans support the Palestinians by up to two to one (see table). And while over half of America thinks

the administration is doing enough to bring about peace in the region, in European countries roughly two-thirds do not.

The rally was seen as a problem in America, too, but for a different reason. The administration, some feared (and others hoped), would be pushed into a more pro-Israeli stance by the pressure of domestic politics, undermining its efforts as go-between in the region. It is true that the administration has felt pressure, though not just from the fabled Jewish lobby. Rather, it comes from two groups which in the normal course of events have less to say about Israel: the religious right, and the neo-conservatives, who want America to play a more forceful role in the world.

Odd man out

Q: *Whom do you sympathise with? %**

	US	France	Germany	Italy	Britain
Israel	41	19	24	14	17
Palestinians	13	36	26	30	28

Source: Pew Research Centre *Polled April 2nd-10th

These Republican groups have their differences. Neo-cons are obsessed with the grand design of foreign policy, the religious right with social concerns, such as abortion and cloning. Some neo-cons backed John McCain, whom the religious right abhors. But they have things in common. Both see the world in Manichean terms, as a struggle between good and evil. Both think that no-holds-barred combat is the best way to conduct that struggle. Both have concluded that Israel is engaged in a war against terrorist evil, so the Bush administration should support it.

Their views matter because over the past decade or so, the Republican Party has shifted away from the corporate, realpolitik view of the world that dominated the first Bush administration. The religious right and the neo-cons are important bits of the second Mr Bush's governing coalition, and he cannot lightly dismiss them. (In contrast, the 4m Arab-Americans have fallen from favour: and though Mr Bush did better at winning their support in 2000 than any previous Republican, he still won less than half their votes.)

But the “problem” of the religious right and the neo-cons could be smaller than it seems. The administration's tough stance on Mr Arafat may have been intended partly to placate these groups (though Mr Bush might well have taken that line anyway). Yet he rejected their views, and incurred their wrath, by demanding that Mr Sharon pull out of the occupied West Bank and by sending Mr Powell to talk to Mr Arafat.

On the other hand, by relentlessly returning to the war on terrorism, the neo-cons and religious conservatives, like the pro-Israel demonstrators, have propped up the president in another way: by rallying support for his foreign policy more generally. Americans' support for military action against terrorists is still strong. So is support for Mr Bush's wider aim of welding the war against terrorism to getting rid of weapons of mass destruction. And his poll ratings remain formidable.

Seen in this light, the pro-Israel rally helped more than hindered Mr Bush. It provided backing for his general position without quite imposing constraints on particular actions. Mr Bush may have more room for manoeuvre than he has exploited so far.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Hunting al-Qaeda

The elusive prey

Apr 18th 2002
From The Economist print edition

On video and in the papers, but still uncatchable

Get article background

EPA

The disappeared

HOW is the war on terror going? On April 17th, George Bush renewed his call for action against the outlaw regimes of the "axis of evil". His listeners may feel they would rather know where the outlaw members of al-Qaeda are.

American officials are proud of the fact that, two weeks ago, Abu Zubaydah was captured in Pakistan. This top al-Qaeda fighter is now "talking to" American interrogators. Over the past months, Pakistan has arrested dozens of suspected al-Qaeda militants; an Iraqi suspect was picked up there on Tuesday.

Some of these men are being handed over to the United States. But many others are still out there. Among them is probably Osama bin Laden, sneaked out of Tora Bora in December, officials now believe, by Afghans who were meant to be America's allies. "We screwed up," admits one intelligence man.

A videotape broadcast by al-Jazeera, the Qatari satellite-TV channel, on April 15th showed Mr bin Laden and his top deputy, Ayman Zawahiri, giving thanks for the September attacks. Donald Rumsfeld, the defence secretary, thought it "somewhat dated", though Mr bin Laden himself looked somewhat less dated than in his previous tape. But his followers, as well as his pursuers, have been reminded not to forget him. On the day the tape was broadcast—perhaps coincidence, perhaps not—*al-Hayat*, an Arabic-language newspaper, published a message allegedly from Mullah Mohammed Omar, the Taliban leader and America's next-most-wanted man, denouncing current events in the Middle East and Afghanistan as "a flagrant crusader war". He, too, is still out of America's clutches.

Even once arrested, al-Qaeda suspects are not easy to deal with. A trial of five Algerians, four of them charged with planning to bomb Strasbourg Cathedral and all suspected of links to the network, began in Frankfurt on April 16th. The police are certain of the identity of only one of the suspects; and, as the trial opened, one defendant yelled that all the lawyers were Jews and that God alone would defend him.

The trial is a reminder of how pervasive the al-Qaeda networks were, and probably still are, in Europe. The Algerians allegedly had links with groups in Britain, Italy, Belgium, Spain and France. A man was arrested (then released) in Germany in connection with an explosion outside a synagogue in Tunisia on April 11th in which 16 people died. The German investigation into al-Qaeda has not yet convicted anyone of anything. The hunt goes frustratingly on. The danger—to America, and to others—persists.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The budget

A call to arms

Apr 18th 2002 | WASHINGTON, DC
From The Economist print edition

It will be very hard for George Bush to rein in government spending this year

IN A week when Americans scrambled to complete their tax returns, their leaders were jousting for the best position in the annual budget battle. On April 15th, the tax-filing deadline, George Bush, standing amidst cereal boxes in a General Mills factory, demanded that his 2001 tax-cut package (which technically expires in 2010) be made permanent. The next day he threatened to veto spending bills that would repeat the mistakes of the 1960s—when “increased spending required by war was not balanced by slower spending in the rest of government”. Meanwhile, Tom Daschle, the leading Democrat in the Senate, vowed he would “never” allow a vote on making Mr Bush's tax cut permanent.

With control of both the House and Senate up for grabs in November, politicians are edgy about making unpopular decisions. That bodes badly for Mr Bush's plan to rein in spending. He has proposed a steep 13% rise in defence money, but he wants to keep increases in non-defence discretionary spending well below the rate of inflation. That may appeal to a few fiscally conservative politicians, but most are loath to squeeze popular social programmes in an election year.

Recent history does not portend well for fiscal restraint: non-defence discretionary spending was rising sharply long before the war on terrorism. Both Republican and Democrat appropriators have already informally agreed on higher limits for next year's budget. And politicians are planning to add their own spending priorities to Mr Bush's recent request for a “supplemental” $27.1 billion in this year's budget to fight the war on terrorism.

Indeed, politicians in Washington, DC, seem as addicted as ever to bacon production. A new report by Citizens against Government Waste, a group that monitors pork-barrel schemes, shows a 32% rise in the number of “earmarked” projects in last year's spending bills, compared with the year before. America's politicians spent $20.1 billion last year on such useful “add-ons”. These included $5.7m for “wood utilisation research” and $273,000 to combat “Goth” culture in Blue Springs, Missouri. With Congress so closely divided, and the deficit still small, more restraint is extremely unlikely this year.

The politics of the tax cut is more complicated. As *The Economist* went to press, the House looked likely to pass a budget resolution that calls for making the tax cut permanent. That will allow Republicans to paint Senate Democrats as wanting higher taxes. Mr Bush has frequently described opponents of a permanent tax cut as supporters of a tax rise.

The Democrats will reply that making the tax cut permanent is fiscally irresponsible, now that the huge projected surpluses have disappeared, and that it is a threat to Social Security, the popular public-pension programme. They have a point: the cost of the Bush tax cut rises sharply after 2010. According to the Congressional Budget Office, making the Bush tax cut permanent would cost an extra $374 billion in the years to 2012. A study by the Centre on Budget and Policy Priorities reckons it would cost an extra $4 trillion between 2012 and 2022.

But that is a long way off. As yet, the Democrats' criticisms of the Bush tax cut have failed to stick. That could change if the budget outlook worsens. Over the past year, official forecasts of the ten-year budget surplus have plummeted from $5.6 trillion to $1.6 trillion (and most budget wonks reckon even that is much too high). Now those figures may dip again.

Economists at Goldman Sachs point out that tax receipts in the current income-tax-filing season have been extremely low. Excluding the amounts already withheld in pay-cheques, individual tax receipts in April were more than 30% below last year's figure. These patterns could change as those last-minute taxes are filed. If they do not, the Goldman Sachs people warn, there will be “large negative revisions” to

official budget forecasts for the next several years. Those late filers may shift the dynamic of the budget battle.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The death penalty

Eighty-five ways to stay alive

Apr 18th 2002
From The Economist print edition

Can death-penalty verdicts be made less prone to error?

Get article background

AP

Krone, still alive, just ten years older

THE timing has a certain resonance. Last week Ray Krone became the 100th person on death row to walk away an innocent man: after ten years behind bars, DNA evidence proved that the Arizonan did not commit the murder for which he was convicted. Now a commission appointed by the governor of Illinois, George Ryan, to study the death penalty has released a report suggesting no fewer than 85 ways to improve the process.

Two years ago, Mr Ryan, a Republican who had previously supported the death penalty, declared a moratorium on executions in Illinois, having lost confidence that the process could be carried out fairly and without error. He appointed a 14-person commission to study the process; its members included Paul Simon, a former senator; William Webster, the erstwhile chief of both the CIA and the FBI; and Scott Turow, a novelist who helped to set free one of the 13 innocents so far released from death row in Illinois.

At the end of the inquiry, the commission voted by a narrow majority for scrapping the death penalty altogether. But it put most of its effort into detailing ways in which the current process could be made more just. The recommended changes begin the moment a suspect in a capital-crime case is caught (his interrogation should be videotaped) and stretch all the way to post-conviction precautions (every death sentence passed by a jury should be reviewed by both the trial judge and the Illinois Supreme Court). Four main areas of concern stand out.

• **Get the right man.** Eyewitness testimony has proved notoriously unreliable. The commission recommends telling a witness that the suspect may not be in a line-up, and recording a witness's level of confidence when he identifies a suspect.

• **Who dies?** The commission recommends that the number of criteria used to define a capital crime be reduced from 20 to five, so that only the most heinous acts, such as multiple murders or killing a policeman, would be capital offences. The death penalty should not be applied in cases where the defendant is mentally retarded or has been convicted solely on the testimony of a single witness.

• **A fair trial.** To drive out incompetent lawyers, the commission supports a new Illinois law that requires lawyers in capital cases to be certified for such work. It also wants judges and prosecutors in capital cases to have special training.

• **Spitting in a cup.** DNA evidence has exonerated at least 12 Americans on death row. The commission wants America to build a big DNA database with mandatory samples taken from criminals convicted of a wide array of offences. Any defendant in a capital case would be able to search the database to identify other suspects.

Mr Ryan has not said which recommendations he will ask the legislature to consider. Their enactment, alas, is likely to be held back by two things. First, they all tend to cost money. As well as the new database, the proposals also include a new, independent state forensic laboratory, better pay for court-appointed defence lawyers, and new video and audio equipment for law-enforcement agencies.

Second, Mr Ryan's own political stock could not be lower. Earlier this month, his former chief of staff was

indicted on corruption charges, and his campaign organisation for governor was indicted for racketeering. Mr Ryan, who had the makings of an interesting moderate Republican, has not been charged, but he has had to withdraw from the governor's race to avoid humiliation. Now there are rumours (strenuously denied) that the Bush administration wants him to resign lest he pull down the Republican vote in November. Mr Krone would surely support him, if he lived in Illinois.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Ozzy Osbourne's return

Reality bites the bat

Apr 18th 2002
From The Economist print edition

A little bit of West Midlands heritage lands on American television

AP

Nice curtains

PEOPLE have long complained that reality TV—the sort that features supposedly normal Americans making fools of themselves—was taking the country to the devil. Now the prince of darkness has arrived. The devil in question is Ozzy Osbourne, once of Black Sabbath, a pioneering (was there any other kind?) British heavy-metal band, who made his name by biting the head off a live bat on stage. A “reality sitcom” on MTV about his supremely dysfunctional yet curiously likeable family has become the biggest hit in the music channel's 21-year history.

One way of thinking of “The Osbournes” is as “The Simpsons” come to life with tight leather trousers and a Brummie accent. There are occasional rock-starish tantrums, and the interior decoration (satanic doorknobs and demon-head towel racks) is a little odd, but it is Ozzy's harmlessness, and the family's struggles to hold their essentially humdrum lives together, that give the show its appeal. If there is any acting involved, it is very hard to spot.

Drugged, drunk, shuffling, constantly swearing, the old headbanger finds everything a challenge, from using the remote control to house-training the pet: “These dogs are bloody (bleeping) all over my house! Why won't they (bleeping bleep) outside?” His battles with a domineering wife (who doubles as his manager) have their own poignancy. On one occasion, she puts a bubble machine on stage for his concert. “Bubbles?” he exclaims. “I'm the prince of (bleeping) darkness!”

As for his two teenage children, Ozzy provides a case study in the baby-boomer school of parenting: do what I say, not what I do. Ozzy, swathed in skin art, is far from pleased when his daughter, Kelly, gets a tiny tattoo. Addicted to pain-killers, with slurred speech and shaking hands, he tells son Jack not to take drugs.

After only six weeks, “The Osbournes” has more than 6m viewers, compared with MTV's average audience of barely 500,000. The cable channel is now fighting off attempts to poach the family for a second series. The Osbournes themselves, previously spotted only in the Court and Social pages of minor metal magazines, now pop up on chat shows everywhere. They have even been invited to next month's White House Correspondents' Dinner, where George Bush will be the guest of honour (Ozzy's confession to having relieved himself on the Alamo notwithstanding).

In an odd way, the Osbournes' success represents a victory for minor celebrities. These were exactly the people who were driven off the screen by the amateur stars of reality TV. Ozzy proves that reality TV is even better when done by professionals.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Control of the Senate

War for Talent

Apr 18th 2002 | ST LOUIS
From The Economist print edition

Will Missouri give a chunk of power in Washington back to the Republicans?

WHICH party controls the Senate after November's elections could be decided by a close-fought race in Missouri that promises to be one of the most expensive and acrimonious in the country. Once they have disposed of token opposition in their parties' primary votes in August, the Democrat who now holds the seat, Jean Carnahan, and her Republican adversary, Jim Talent, will square off for the remaining four years of the term of the late Mel Carnahan, who was posthumously elected in 2000 just after he had been killed in an aircraft crash.

The race between Carnahan and the then incumbent, John Ashcroft, had been one of the bitterest in Missouri memory; quite apart from their political differences, the two men detested each other. Although George Bush carried Missouri in the presidential battle, the dead Carnahan narrowly won the senatorship. (He had been the state's governor, but was prevented by term limits from running again.) After his death, his widow Jean was named as his successor by Roger Wilson, another Democrat who had taken over as governor. Now she has to see if she can hold on to the job.

In that same November 2000 election, Mr Talent suffered the first defeat of his political career. The four-term member of the House of Representatives from the suburbs of St Louis ran a slick and well-financed campaign for the governorship against the Democrats' Bob Holden. But he lost, partly because Missourians from ouside St Louis seem to dislike the idea of having a governor from the big city.

After almost eight years as the state's popular first lady, Ms Carnahan's tragic entry into elected office thrust her into an unaccustomed limelight. She voted in the Senate against Mr Ashcroft's nomination to be the Bush administration's attorney-general. A senator for less than a year and a half, she has not had much time to build up a vote-catching record; but then neither has she done much (the Ashcroft business apart) at which Mr Talent can point an accusing Republican finger.

Mr Talent has tried to appeal to female voters by inviting prominent ladies connected with the Bush administration to say what a good fellow he is. His campaign team has also argued that Mr Bush needs Mr Talent in Washington to support him in the war on terror. Yet it is unable to show how Mr Talent might vote differently from Ms Carnahan, who has strongly supported Mr Bush's anti-terror campaign since September 11th.

Mr Talent also has problems. After the governor's race in 2000, he has had a part-time lobbying job that paid him $230,000 for buttonholing his old congressional colleagues. He also received $90,000 for teaching fewer than 20 students at Washington University in St Louis, where a full-time instructor makes $67,000 a year. This week, the Democrats claimed that these jobs were a way to circumvent state campaign-finance laws. The Republicans threw a similar charge at the local Democratic chieftain, Richard Gephardt, the minority leader in the House. It can only get worse during the summer.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Affirmative action

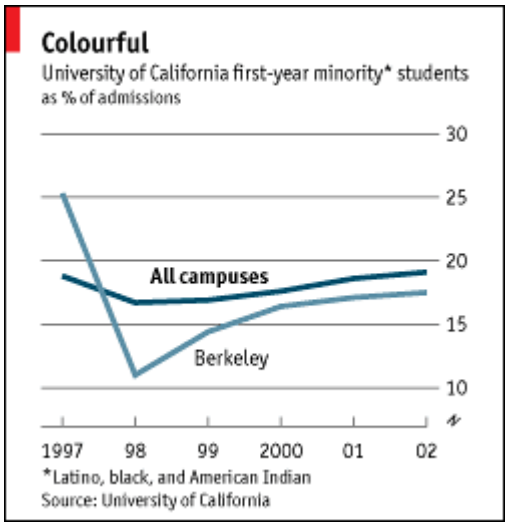
Sweat, not blood

Apr 18th 2002
From The Economist print edition

Minority students have survived the end of racial preference

WHEN the University of California abandoned the practice of giving preference to members of racial or ethnic minorities in 1997, admissions of blacks, Indians and Latinos fell at once, to the alarm of supporters of such “affirmative action”. Now reformers can finally say: “I told you so”.

Of the 48,369 students admitted to the university in 2002, these “under-represented” minorities are now back up to their previous levels (see chart). There is a glitch: disadvantaged students are still well below 1997's figures at Berkeley, the smallest and most prestigious part of the UC system. But the figures exclude Asian-Americans, who make up a third of the total intake, and more than 40% of those at Berkeley



Ward Connerly, a university regent who wrote the 1996 proposition that ended affirmative action, plans another ballot initiative this year. It would stop the state using racial classifications in compiling official data.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

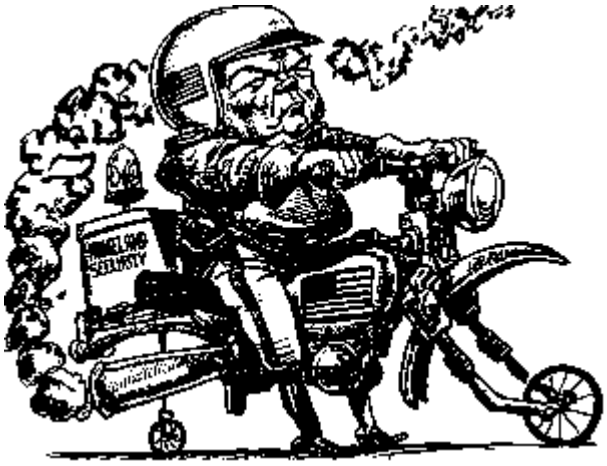
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Lexington

Poor Tom

Apr 18th 2002
From The Economist print edition



America's homeland security is still chaotic, but it isn't all Tom Ridge's fault

Get article background

THE most precious commodity in politics is credibility. A politician with credibility can sell pie in the sky. Without it, everything he does turns to dust. Tom Ridge, the man in charge of homeland security, is rapidly losing what little he had when he came to Washington last October. He has been beaten in so many turf wars that he will soon be looking for office space in Baltimore. Now he is refusing to explain publicly before Congress how his department is spending its money, and the press is beginning to bracket him with Underperformin' Norman Mineta, the transport secretary, and Paul O'Neill, the loose-lipped treasury secretary, as one of the administration's standing jokes. Mr Ridge's biggest idea to date—a colour-coded system of terrorism alerts—instantly became the stuff of late-night comedy.

Give Mr Ridge his due. He has secured a budget of some $38 billion (not difficult, admittedly, in the wake of September 11th) and assembled a talented staff of 80 people. His website pulls no punches. America is vulnerable to terrorism of “catastrophic proportions”, he says; the threat is a “permanent condition” that will get worse in coming years.

Allowances also have to be made for the sheer scale of his task. A country protected by great oceans and friendly neighbours has little experience of the need for homeland defence. Mr Ridge is trying to weld a mass of bureaucracies that were created for other purposes into a coherent system. (He has to deal with some 70 agencies and thousands of local-government bodies and voluntary organisations.) He is discovering that many of those bureaucracies are lousy at doing what they were set up to do in the first place, let alone fighting terrorism.

So far Americans have made a surprisingly bad job of adjusting themselves to terrorism. They remain remarkably insouciant compared with Europeans, who have lived through less spectacular but more sustained terrorist campaigns. It is not uncommon to see unattended bags sitting in public places. You can still disembark from your airliner during a lay-over and leave your ticking luggage on board (a gap that may not be shut until 2004).

But, after making every possible allowance, it is hard not to worry about Mr Ridge's performance. The squabble over whether he should testify before Congress—first he refused to do so, then he sheepisly complied, though only behind closed doors—has diverted attention from more important matters, alienated potential friends and underminined his authority. Isn't Congress right to want to exercise some

oversight over $38 billion of federal money? Isn't Mr Ridge the only man who can explain to the American public how their money is being spent?

Mr Ridge has lost a succession of high-profile battles with his “colleagues”. The defeat of his cherished colour-coded terrorism alerts was risible. Mr Ridge naturally expected that he would have the honour of managing the alerts. His job, after all, is to be the public face of homeland security, and he has unique access to the relevant information. But he reckoned without John Ashcroft's bureaucratic clout and monumental self-importance. The attorney-general is now firmly in charge of deciding whether this is a red day or an orange one.

An even more humiliating defeat came over border security. For some time Mr Ridge has been insisting that the four or so organisations in charge of border security should be consolidated. He even circulated a cabinet paper to that effect. But his plans were first leaked to the press—remember this is the supposedly leak-proof Bush administration—and then kicked to death by a posse of cabinet secretaries. One of the heaviest stampers was Mr Ashcroft.

Perhaps the former governor of Pennsylvania is too green for Washington politics. But it is just as likely that he is the victim of a structural problem. The White House forcefully resisted creating a full department of homeland defence on the ground that Mr Ridge possesses something that matters much more in Washington than a formal department—the president's ear. But the White House is overrun with people who claim to have the president's ear. Mr Ridge needs something rather more solid: the clout and credibility that come from statutory authority.

And what about the next surprise?

All this infighting has distracted Mr Ridge from tackling the biggest question he faces. Is he fighting the coming war on terrorism, or the last one? In the wake of September 11th America hastened to make sure the same thing didn't happen again, sharpening airport security and putting 28,000 airport-security staff on the federal payroll. But the likelihood of another such assault is small. Americans will not sit idly by while terrorists fly airliners into buildings or ignite their smelly gym shoes. They are all Todd Beamers now. Al-Qaeda will almost certainly exploit different weaknesses. There is little scrutiny of the 18m cargo containers that enter the country every year: it would be easy to use these to deliver a biological or nuclear device to Los Angeles or New York. (Even a conventional bomb could turn the petrochemical plants that surround most ports into infernos.) Thousands of lorries stream over the Mexican and Canadian borders every day, yet the Federal Motor Carrier Safety Administration boasts a grand total of 275 inspectors.

Mr Ridge still has time to redeem his reputation. He plans to publish a comprehensive homeland-defence plan by July 1st, which might belatedly set off a debate about the country's priorities. Mitch Daniels, the budget director, recently hinted that the White House might consider creating a proper Department of Homeland Security. In the meantime, Mr Ridge's colleagues, especially Mr Ashcroft, need to realise that some things matter more than protecting bureaucratic turf—such as defending the country from mass-murder. And Mr Bush needs to keep his promise to support a friend who, only six months ago, looked vice-presidential material.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Politics in Venezuela

After the coup, the reckoning

Apr 18th 2002 | CARACAS
From The Economist print edition

EPA

Hugo Chavez has survived for now, but power lies with the army

Get article background

FOR those who thought that coups in Latin America were a thing of the past, the events of April 11th-14th in Venezuela were a rude shock. As rival crowds alternated on the streets of Caracas, and the army swayed to and fro like a palm tree in a hurricane, in four days of chaotic confusion Hugo Chavez, the populist president, was swept out of office and then back in again. But while his restoration weakened his opponents, it also left a chastened president facing an uncertain future.

The overthrow of Mr Chavez by his own generals was backed by a heterogeneous coalition spanning business, labour, the Catholic church and the media. It was widely welcomed by Venezuela's middle class. At least 150,000 people had turned out to back a general strike against Mr Chavez last week. When violence broke out, the generals acted. The United States, increasingly irritated by Mr Chavez, all but applauded; it fought to stave off condemnation of his ouster at an emergency meeting of the Organisation of American States on April 13th.

But within hours, the coup began to unravel. The original plan for a broad civilian-military junta was jettisoned even before Mr Chavez surrendered to the army. In its place Pedro Carmona, the leader of the business lobby, was installed as president, with a cabinet of conservative fanatics which excluded labour. Mr Carmona was persuaded to decree the immediate closure of the National Assembly and the Supreme Court, and tore up Mr Chavez's constitution, which had been approved by a large majority in a referendum in December 1999. Swaddled like a chrysalis within the original plot, this “coup within the coup” angered many who had worked to unseat Mr Chavez.

Even so, it was astonishing that Mr Chavez, who on April 12th seemingly lacked all military support, should be swept back to his palace by the armed forces two days later. But Mr Carmona, though backed by many generals and admirals, lacked support from middle-ranking officers who control troops. And the conservatives underestimated the fervour and anger of Mr Chavez's remaining supporters. Opinion polls show support for Mr Chavez having plunged to 30%. But his hardcore sympathisers in Caracas's numerous shantytowns poured onto the streets over the weekend, looting and rioting. In all, some 50 people were killed in the four days of mayhem. Lastly, the conservatives had failed to take elementary precautions to secure their hold on power. An uprising led by the paratroop division (of which Mr Chavez is a former commander) and the presidential guard was enough to overthrow Mr Carmona.

Mr Chavez may be back in office, but his country has changed since last week. The coup revealed that

the opposition was right when it insisted that most military officers are institutionalists, who have not signed up for Mr Chavez's “Bolivarian revolution”. Most of those who supported his restoration did so not because they share his ideology but because they believe in the rule of law. “We rose up against the government, not the constitution,” said General Efrain Vasquez, when he withdrew his support for Mr Carmona on April 14th (though he was later detained for his role in the coup).

Mr Chavez's restoration may have come with strings attached. There are three points on which the army may try to hold the president to account. First, there is control of the oil industry, the issue which triggered the general strike. Secondly, the army wants him to disarm the “Bolivarian circles”, an embryonic civilian militia, some of whose thuggish members fired on the opposition march. Then there is Mr Chavez's seemingly benevolent attitude towards Colombia's guerrillas. The army wants tighter border security.

Oil and revolution

Mr Chavez this week dropped his effort to install new management at Petroleos de Venezuela (PDVSA), the state oil company. But that may be merely a temporary retreat. Without control of PDVSA, the government's main source of revenue, “there is no revolution,” says Alberto Garrido, an author of several books on Mr Chavez. There is little evidence that the president is prepared to seek compromise rather than confrontation.

This puts him on a collision course not just with his opponents at home but also with the Bush administration. American officials were this week scrambling to deny reports that they knew about and even encouraged the coup plot, though they pointedly failed to condemn it. Otto Reich, the State Department's senior Latin American specialist and an adviser to Nicaragua's Contras in the 1980s, denied, too, that he had spoken to Mr Carmona, urging him not to dissolve the Assembly. This alleged contact had raised questions as to how involved Mr Reich was with Mr Carmona's coup.

The United States' embassy in Caracas is allowing non-essential staff and family members to leave; so are some American firms. The United States may now seek to restrict loans to Venezuela, according to Orlando Ochoa, an opposition economist. “The military-political tactic has failed. Now what remains is the slow economic battle.”

Latin American governments feared that Mr Chavez's overthrow would set a dreadful precedent in the region. They were behind the OAS's decision to convene a special session of its general assembly to discuss Venezuela on April 18th, something which the United States opposed, fearing it would give a platform to Mr Chavez. Ironically, the OAS's democratic charter, which requires it to intervene when democracy is threatened, was approved last year at the behest of the United States and despite dissent from Venezuela. The lesson for Mr Chavez is that he was saved not by Cuba's Fidel Castro, his best friend in the region, but by democracy, points out Mr Garrido.

Nobody has emerged from these events with much credit. They have cast a familiar shadow of political instability over Latin America—and given the no less familiar impression that the United States backs democracy in the region only if it is run by its friends. And while Mr Chavez has bobbed back, some Venezuelans believe his “revolution” has been mortally wounded. After all, many successful coups are preceded by botched attempts.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Politics in Brazil

Praying for votes

Apr 18th 2002 | SAO PAULO
From The Economist print edition

Evangelicals could swing the presidential election

Get article background

UNTIL the 1970s Brazil was an almost entirely Catholic country. No longer: census figures due next month are expected to confirm those of an unofficial 1998 survey, which found that one in six Brazilians now professes loyalty to mainly Protestant evangelical churches. As their flock has grown, evangelical pastors have sought political power, being elected to local and national office. The candidates in October's presidential election are scrambling to win their endorsement.

Despite his party's traditional links to the Catholic church, Luiz Inacio Lula da Silva, the candidate of the left-wing Workers' Party (PT), is trying to forge an alliance with the centre-right Liberal Party, which includes many evangelicals from the Universal Church of the Kingdom of God. Universal's founder, Edir Macedo, started out preaching in a park in Rio de Janeiro in 1977. His group has spread swiftly across Brazil, where it now claims 4m followers, and even as far as Japan and South Africa. Though in the 1989 election it called Mr da Silva “the Devil”, it has since abandoned its fierce anti-socialist rhetoric, while the PT has shuffled towards the centre.

Mr Macedo has used politics and the media to promote his church and to protect it from prosecution. Besides sending his clerics to Congress he has bought one of Brazil's largest television networks. Paul Freston, a sociologist who studies Brazil's evangelicals, says Universal's political success has had a strong “demonstration effect” on other churches, which have followed suit. In the 1998 election, 54 evangelical clergy won congressional seats, compared with only a handful of Catholic priests. The evangelicals hope for more this year.

Many pastors are giving pulpit endorsements to Anthony Garotinho of the soft-left Socialist Party, who has just stood down as governor of Rio de Janeiro to run for president. Mr Garotinho is a Presbyterian lay preacher, who converted from atheism after suffering a car crash in 1994. He has implanted in Rio something like the “faith-based initiative” that President George Bush talks about: welfare services that are publicly funded but run by (evangelical) church agencies.

Not to be outdone, Jose Serra, the candidate of President Fernando Henrique Cardoso's centrist Social Democrats, spoke earlier this month before a committee of 200 pastors from the Assemblies of God, which have an estimated 16m faithful in Brazil. Pastor Ronaldo Fonseca, the committee's organiser, says they will hear all the contenders and then, in June, announce which one they will support. Parts of his church backed Mr Cardoso in the last two elections; this time there will be a full slate of approved candidates for president, state governors and congressmen.

All this leaves Brazil's Catholic church in a quandary. It frets about the evangelicals' spreading influence, especially among its friends in the PT. On the other hand, its past politicking met with the pope's disapproval. The annual conference of Catholic bishops, held over the past fortnight, began with a denial that a papal envoy had come to urge them to stay out of the elections. Some bishops argue that they should anyway; they are trying to dissuade priests from standing as candidates. Though most priestly politicians belong to the PT or other left-wing groups, some are conservatives.

Conversely, while many evangelicals are politically conservative, some pastors have joined left-wing parties. They are a more varied bunch than America's religious right, says Mr Freston. Universal, for instance, is flexible on abortion: Mr Macedo has even admitted that his mother had one. Universal's success is partly due to its having become more liberal, in response to Brazil's transformation into a modern, secular society. Though almost all Brazilians say they believe in God, they have twice elected Mr

Cardoso, an admitted atheist. And in one poll last year, only 26% said their religious leader's advice might sway their vote.

But the presidential election looks so volatile that no candidate wants to risk church leaders blessing a rival. On April 13th, Roseana Sarney of the conservative Liberal Front Party abandoned her candidacy following a campaign-funding scandal. A new poll suggested this had helped Mr da Silva recover his clear lead, after several wobbly months. Mr Serra and Mr Garotinho were tied in second place, battling to face Mr da Silva in a run-off. In such a tight race, it is no wonder that the candidates are putting on their Sunday best.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Mexico's foreign policy

The Cuba test

Apr 18th 2002 | MEXICO CITY
From The Economist print edition

Relations with Fidel Castro have sparked political warfare

OVER the past month, Mexico's political world has become transfixed by an obscure ritual in the inner councils of the United Nations. On April 15th, the government of President Vicente Fox finally announced that it would back a resolution criticising Cuba at this week's annual meeting of the UN Human Rights Commission. The resolution is couched in mild terms (see article). But Mexico's stance towards Cuba has caused a bitter political row: it was behind an unprecedented vote by the Senate last week which denied Mr Fox permission to make a planned visit to the United States and Canada.

The row began with reports that Mexican officials had pressed Fidel Castro to depart early from a UN development get-together in Monterrey, to spare George Bush an encounter with the Cuban leader. But the issue goes much further. Mexico's relations with Cuba have come to symbolise a deeper dilemma. Should Mexico modernise, change and integrate with an American-led world? Or should it strick to its old ways of non-intervention, and solidarity with the icons of a bygone era of guerrillas and gringo-bashing, such as Mr Castro. On that broad choice rests the future of Mr Fox's presidency.

Throughout the cold war, Mexico was Mr Castro's staunchest regional supporter (while quietly allowing the CIA to spy on Cubans). For Mr Fox, a former Coca-Cola manager elected after seven decades of rule by the Institutional Revolutionary Party (PRI), reshaping relations with the Castro regime is a way of showing that he is serious about trying to fulfill his election mandate to break with the past.

In foreign policy, that change means first a “broader and deeper relationship” with the United States and Canada, says Jorge Castañeda, the foreign minister. It also means Mexico playing a fuller role in international institutions such as the UN (where it is currently on the Security Council). And it involves placing more emphasis on human rights and democracy at home and abroad. The hope is that such engagement will help to “modernise” Mexico itself.

This is an ambitious agenda which leaves little room for clinging to anti-American, anti-democratic former friends. So, after years of abstaining on the Cuban issue at the UN, Mexico has changed its line. And following the breakdown of peace talks in Colombia in February, Mr Fox's officials this month quietly shut down an office of the FARC guerrillas in Mexico city.

But is Mexico ready for this re-orientation in foreign affairs? Legislators from both main opposition parties, the PRI and the more left-wing Party of the Democratic Revolution, who between them have a majority in Congress, have queued up to condemn the government for getting too close to the United States and for deserting a traditional ally. This was the argument they wielded in forcing Mr Fox to cancel his trip last week.

With Mr Fox's plans for domestic reform bogged down by Congressional opposition, foreign policy has been one of his government's few successes. On issues such as Cuba, the executive has hitherto been able to set its own agenda. Conversely, the PRI, which harbours hopes of returning to power in 2006, knows that it has to attack Mr Fox's apparent successes abroad. Congress had being making life as difficult as possible for Mr Castañeda even before last week. But opinion polls suggest that Mexicans back Mr Fox in his dispute with Congress, and take an unromantic view of Cuba as well. If so, this row could inject President Fox's rather shapeless government with a new, and much needed, sense of purpose.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Cuba's foreign policy

Big row, small change

Apr 18th 2002 | HAVANA
From The Economist print edition

A ritual battle over a human-rights vote

IT'S that time of year again. In the run-up to this week's vote at the UN Human Rights Commission, Cuban officials have been hurling their customary insults at their accusers in the United States, and all those in the region they see as American lapdogs. But to little avail. All the signs are that Latin America is losing patience with Cuba.

Fidel Castro's government has suffered criticism of its human-rights record at the UN for nine out of the past ten years. But only narrowly: last year the resolution condemning it passsed by 22 to 20 votes. Cuba can rely on the likes of Algeria, Libya and Vietnam. And last year the United States was voted off the commission. But it has been lobbying hard, especially in Latin America.

Mexico (see article) and Peru, abstainers in the past, both said they would back a Uruguayan motion. This praises Cuba's record on “social rights” but condemns the lack of political rights and would send a UN investigator to the island. In response, Felipe Perez Roque, Cuba's foreign minister, accused Uruguay and Peru of having traded their self-respect and independence for the Yankee dollar. That prompted Uruguay to recall its ambassador from Havana.

But, as always, the bitterest exchanges are between Cuba and the United States. American diplomats have handed out short-wave radios on the island, and are backing a petition for constitutional changes. They say their policy towards Cuba will not alter until Mr Castro allows free speech and elections.

Yet some things are changing. Since November, when the first shipments of American goods in four decades arrived, there has been a steady stream of frozen chicken, lard, apples and beans, with more to follow. And more Americans than ever before are visiting Cuba. Some are defying a 40-year travel ban. Others have been given permission by the administration in Washington; they include Jimmy Carter, a former president who is due shortly, and will be the most prominent American to visit Mr Castro.

The farm lobby and many ordinary Americans would like change to go faster. But not George Bush, who owes his election in part to Cuban-Americans in Florida. And it remains an open question whether Uncle Sam is more useful to Mr Castro as the enemy against which to rally his citizens, or, if and when the embargo is lifted, as an export market and a source of tourists and investment.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

America and Afghanistan

Stand by me

Apr 18th 2002 | WASHINGTON, DC
From The Economist print edition

AP

The American administration argues that things are better than they seem in Afghanistan. Is that right, or just hopeful?

Get article background

ZAHIR SHAH, the 87-year-old former king, returned amid rejoicing to Kabul this week to preside over what everyone in his country—Afghans and outsiders alike—hopes will be the end of the beginning: a *loya jirga* (council of elders), due to convene in early June, to choose a new government. The timing is not auspicious.

Over the past few weeks, someone attempted to assassinate the defence minister. Gulbuddin Hekmatyar, a former mujahideen prime minister, was accused of staging an abortive uprising in cahoots with al-Qaeda terrorists: hundreds of people have been arrested, not always on the strongest of evidence. Proposals to expand the international peacekeeping force in Kabul (known by its acronym ISAF) came to naught. The aid agencies say security outside the capital is deteriorating fast. There are regular clashes between groups of warlords not far from the capital. “Everyone is failing us,” wails one advisor to the prime minister, Hamid Karzai. Is that true? Is the rest of the world, and America in particular, abandoning Afghanistan to its fate?

No, says the Bush administration. “It isn't unravelling at all. The environment there, compared with six months ago, is so much better than it was. I mean, humanitarian workers are moving around. Hospitals are treating patients. Schools are open. An army's being trained. Goodness gracious, let's not think we're pulling a thread on a cable-knit sweater and it's going to unravel before our eyes.” That was the defence secretary, Donald Rumsfeld, speaking on April 8th.

His sanguine view may seem far-fetched (“living on a different planet”, one critic put it). And even within the administration, principally in the State Department, there are voices favouring a more robust commitment to peacekeeping. But Mr Rumsfeld has a case to make when he argues that the threat to the survival of the Karzai government may be less bad than it looks from the sporadic news reports of violence. One senior official describes Afghanistan thus: “we see a certain low-level turmoil which may rise with the *loya jirga*; but we also see a sort of equilibrium among the different centres of power.”

Local leaders are jockeying for position in the assembly. But so far no one is openly seeking to cut ties with the central government. James Dobbins, America's outgoing envoy, says: “I do not know of a single leader who is contesting the authority of the central government or the legitimacy of the *loya jirga*.”

Meddlesome neighbours are kept more or less at bay. And this week, the first elections to the assembly turned into village festivals in the countryside around Mazar-i-Sharif. President Bush called this week for a “Marshall Plan” for Afghanistan—though gave no details.

Yet it is true that Mr Karzai, pictured above with Mr Bush, and Kofi Annan, the secretary-general of the UN, asked for an increase in both the size and the scope of the ISAF. Richard Holbrooke, the broker of peace accords in Bosnia, has strongly criticised the Bush administration for failing to do in Afghanistan what America did there—send in a force large enough to show that it is serious about peacekeeping. He claims the administration's refusal to expand the ISAF stems from a visceral hostility towards “nation building” which is putting Afghanistan at risk.

Not so, reply administration officials. The question is anyway not the theology of nation building but how best to discourage localised violence. There are two ways of doing that. One is by sending more peacekeepers. The trouble is that almost all countries that might volunteer their soldiers are sceptical—not, by any means, just America. The British, who lead the force now, already have more troops than they can spare in Afghanistan, considering their commitment in the Balkans. The Turks, who are due to take over the ISAF in May, adamantly oppose extending its mandate, partly because of the cost, and partly because they fear a backlash at home if their soldiers kill fellow Muslims. A more determined effort by America to whip up support for a large peacekeeping operation might have encouraged the others—but the lack of enthusiasm from all sides has been striking.

So, seen from Washington, the other way to limit violence begins to look more attractive. The Americans think they can train an Afghan army more quickly than critics fear, and hope to have a national force of 16,000 in the field in 18 months. That would make it the largest militia in the country. More immediately, American field officers are leaning on local warlords to persuade them to, say, open up road X to civilian traffic, or not send their militias into valley Y.

This might be fine, but for two things. First, the equilibrium that is keeping the level of violence tolerably low may prove unsustainable. Under cover of the Pushtun Mr Karzai's “national” government, the Tajik-dominated Northern Alliance is consolidating. The three most powerful ministries—defence, interior and foreign affairs—are headed by Tajiks from a single small region, the Panjshir valley. According to Fred Starr of the School of Advanced International Studies in Washington, most of the 88 people recently announced to staff the defence ministry come from the Panjshir. This puts the security services into the hands of one ethnic sub-group. The Northern Alliance's leader, Burhanuddin Rabbani, sidelined by Mr Karzai's appointment, has recently moved into the prime minister's palace, and has begun to act as a rival premier.

In theory, the *loya jirga* could right this imbalance. But in the past, such assemblies have endorsed the status quo. If that happens this time, says Mr Starr, and the victorious Northern Alliance remains as dominant, the Pushtuns could bolt from the new government. Serious violence could break out anew.

Second, there is the problem of extending the central government's remit beyond Kabul—which would remain even if the ethnic imbalance were corrected. At the moment, the government's authority is like the emperor's new clothes: non-existent, but no one dares say so. That may not matter too much for now because the Karzai government's term ends in June, and because everyone is exhausted by the campaign against the Taliban. But neither factor will last. The *loya jirga* is supposed to install something more permanent.

In other words, the real challenges to Afghanistan's stability may only now be starting. At the moment, relative peace, and a minimalist approach to peacekeeping, depend on low expectations of the central government and the hope that the dominance of the Northern Alliance is only a temporary phenomenon. Both perceptions could rapidly change, and the question is what happens then. America turned its back on Afghanistan once before, after the mujahideen it backed drove the Russians out. Might it do so again?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Drugs in Afghanistan

The poppies bloom again

Apr 18th 2002
From The Economist print edition

And the interim government can't do much about it

Get article background

AP

If you know of a better cash crop, tell him

OPIUM is giving Hamid Karzai's interim administration in Afghanistan nightmares. Poppy cultivation, which the Taliban cracked down on last year, is back with a vengeance in a country that once produced 70% of the world's opium and was the source of 90% of the heroin sold on the streets of Europe. With the Taliban broken and no replacement then in place during the planting season last autumn, Afghan farmers rushed back to their old crop. It is easy to see why: at current prices of $350-400 per kilogram of opium, a farmer can reap over $13,000 per hectare cultivated, against $400 per hectare for wheat, and, unlike for any other crop, get cash in advance from traders. According to the UN's drug-control programme, this year's crop is likely to yield 1,900-2,700 tonnes of opium, bringing Afghanistan back to its mid-1990s level. Unless the authorities manage to kick farmers' planting habits, opium production could quickly return to the 1999 peak of 4,600 tonnes.

The Taliban were brutally successful at rooting out poppies. After opium was declared “un-Islamic” in July 2000, production fell by 94%. The Taliban's religious scruples, however, only applied to planting. The revenue lost from the regime's 10% tax on production was counterbalanced by a 20% levy on trade, which was still legal. And thanks to good harvests in 1999 and 2000, traders were sitting on a couple of years of supply. The ban boosted prices from a low of about $30 per kilo before the ban to an average of $610 just before September 11th.

Last January, the freshly-appointed interim administration banned not only the cultivation, but also the processing, sale and use of opium. Most poppy seeds, however, were already in the ground, and the ban was not observed. During that same month, some farmers in Helmand province—the source of over half of the country's opium—were still re-ploughing their wheat fields, which had just germinated, to sow opium instead. On April 8th, the interim administration launched a programme to get rid of the poppies in bloom. Farmers, however, did not find the government's offers of compensation—$1,250 per hectare, a tenth of their market value—adequate. The campaign triggered violent protests in the south and east of the country, where most of the opium is grown. In Nangarhar province, tribes have decided to join forces to fight the eradication. Few crops are being destroyed, and unless the squeeze can be applied to trafficking, the government's anti-drug efforts are likely to meet with very limited success this year.

What about next year? According to Bernard Frahi, who heads the UN drug-control programme for Afghanistan and Pakistan, the immediate priority is to make sure that farmers have access to seeds, fertiliser and credit for alternative crops before the next opium-planting season in the autumn. Over the longer term, farmers will give up opium only when their economic prospects improve, and they face tough penalties. So the UN is helping set up a national drug-control commission, prepare police training, develop anti-drug laws and develop alternative sources of income for farmers, all of which will take time. Co-ordination with neighbouring countries is also essential to stop the flow of opium. Foreign donors, on whom the country's reconstruction depends, have made it clear that Afghanistan has to succeed. Otherwise, the only donors left will be western heroin addicts.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

India's ruling party

Shameless

Apr 18th 2002 | DELHI
From The Economist print edition

The BJP is trying to capitalise on a wave of killing

Get article background

AP

Vajpayee (top) won't sack Modi

HERE is an irony: India's ruling Bharatiya Janata Party (BJP) has for several years seemed to treat its Hindu-nationalist ideology as a political liability. Now, when that ideology is showing its dangerous and shameful side, the party has suddenly chosen to reaffirm it. Little more than a month ago, Hindu mobs in Gujarat, a BJP-ruled state, slaughtered hundreds of Muslims. The atrocities began as revenge for an attack by Muslims on a train carrying Hindu pilgrims, in which 58 people burnt to death. More than 800 people have died in violence that still has not ended.

Last weekend, at a meeting of its executive body in Goa, the BJP not only rejected opposition calls for the sacking of Gujarat's chief minister, who seems to care more for the mainly Hindu murderers than the mainly Muslim victims, but invited him to hold early elections in the state, in effect capitalizing on the carnage. India's prime minister, Atal Behari Vajpayee, whose reputation for tolerance makes the BJP acceptable to most of its 18 coalition partners, shocked India by echoing those who blame Muslims for the violence against them. The massacres are “condemnable”, he said, “but who lit the fire and how did it spread?”

This is a turning point. During its four years in government the BJP has been deferential to fellow members of the National Democratic Alliance, smothering its ideology of Hindutva (“Hinduness”) lest they walk out of the government. Most of the coalition members solicit Muslim votes and have more in common with the “secular” opposition than they do with the BJP. The BJP is not ready to part company with them yet, but the deference is falling away. Winning the next series of elections, culminating in the general election to be held by autumn 2004, has become as important as shoring up the coalition.

The new assertiveness looks to have passed its first test. The alliance's biggest backer, the Telugu Desam Party of Andhra Pradesh, a southern state, threatened to pull out unless the BJP sacked Narendra Modi, Gujarat's chief minister. The BJP said no, perhaps its boldest rebuff yet to a parliamentary ally.

The BJP has votes to spare. This week it agreed to let a party representing mainly Dalits (formerly called Untouchables) rule in Uttar Pradesh, the biggest state, in exchange for its support at the centre. The Telugu Desam Party is apparently having second thoughts about pulling out; like other coalition members, it is loth to chance elections or to join forces with Congress, its main rival in Andhra Pradesh. The campaign to oust Mr Modi may now be confined to the opposition, which is paralysing parliament but cannot topple the government. Analysts expect the coalition to stumble on for a while longer, though perhaps not to its full term.

The electoral test may be tougher, though. The BJP has lost a string of state and municipal elections, most recently in Uttar Pradesh and Delhi. Until the horrors of Gujarat, it was set to lose there too. The home minister, L. K. Advani, said in Goa that the BJP had been “needlessly apologetic” about its ideology. In future, he suggested, the BJP would sound two themes: the ensemble music of the National Democratic Alliance and its own brassy solo, “enlightened cultural nationalism”.

This may work in Gujarat. According to a poll, 52% of urban Gujaratis now expect the BJP to win. There

is less chance it will succeed in less polarised states, such as Madhya Pradesh and Rajasthan, which are to hold elections next year. And the odds look even longer for the general election, in which the BJP needs allies to win. “Cultural nationalism” sounds harmless, maybe even admirable, but not in the mouths of those who find excuses for the pogroms in Gujarat.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Hong Kong and dissidents

One country, two systems

Apr 18th 2002 | HONG KONG
From The Economist print edition

Except when China doesn't like it

EVEN those who are routinely cynical about Hong Kong's supposed autonomy from China were surprised this week when officials at Hong Kong's airport refused entry to a Chinese-born American citizen and put him on the next flight out. The unlucky visitor, Harry Wu, is no friend of officialdom in Beijing—he became famous for exposing China's exploitation of prison labour, for which, in 1995, the regime convicted him of “spying for Taiwan” and expelled him. But that is supposed to be beside the point. Mr Wu had already paid several visits to Hong Kong, both before and after its return to Chinese sovereignty in 1997. And in any case, Hong Kong, at least in theory, runs an independent and apolitical immigration policy.

Moreover, Hong Kong had appeared only last year to set a precedent for letting Mr Wu in, when it allowed another Chinese-born American whom the Chinese had sentenced and kicked out for “spying for Taiwan”, Li Shaomin, to return to Hong Kong. Mr Li, a professor of marketing at a local university, has never quite felt at ease again in Hong Kong since, and has decided to move back to America in June. Hong Kong has also let in others on China's black list—also this week, Huang Beiling, a dissident and poet better known under his pen name, Bei Ling, flew in from America to be reunited with his brother.

Still, on other recent occasions, Hong Kong's government has seemed suitably eager to accommodate China's sensitivities at its passport controls. Most notably, it refused entry last year to a number of visitors who were arriving to participate in a conference organised by Falun Gong, a spiritual movement that the government in Beijing considers an “evil cult” and persecutes ruthlessly on the mainland, but which is entirely legal in Hong Kong.

One of the many who are concerned about these signs of meddling by China's government is James To, a member of an opposition party and chairman of the “security panel” in Hong Kong's toothless pseudo-legislature. Hong Kong's government usually cites unspecified “security reasons” as well as “the overall interest of Hong Kong” for its controversial decisions, and Mr To has been asking how this interest is defined—repeatedly and in vain.

The American consulate in Hong Kong, for its part, includes “freedom of association” in its definition of the territory's interests, and was quick this week to issue a statement of concern. Hong Kong's government hates having to defend itself on what it usually claims as the city's forte (freedom). Still, however Hong Kong's “interests” are defined, alienating the government in Beijing is clearly not what its administration sees as in its interests.

This is why it is putting up little resistance to pressure from China for an amendment to Hong Kong's constitution—Article 23, now in draft form—which would outlaw all sorts of activities as “subversive” to the motherland. Specifically, Article 23 would prohibit the linking of domestic and foreign “political structures”. This could easily be interpreted to extend to Hong Kong's Falun Gong network. Or to Harry Wu, who this week was coming to discuss sharing office space with a local human-rights activist. Or, for that matter, to almost anybody else.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

China

Working on the highway

Apr 18th 2002 | LANGFANG, HEBEI PROVINCE
From The Economist print edition

Roads are transforming China

WHEN Gao Zhenyong was growing up in Langfang, the town was a quiet, spread-out sort of place where most people grew grain for their livelihood. Living 60km (40 miles) from China's huge port city of Tianjin, and only slightly closer to Beijing, Langfang residents had little in common with their urban neighbours, and little cause to make the three hour journey on rickety, congested local roads to either city.

Things began to change in 1993, when the Beijing-Tianjin expressway—one of China's first—opened. Chosen as the site for an interchange on that highway, Langfang has since grown beyond recognition. It is now home to hundreds of high-tech enterprises, an international convention centre and a “university city” that expects its student population of 30,000 to rise to 150,000 within ten years. And Mr Gao, 45, is now vice-director of the Langfang Economic and Technology Zone. His work often takes him to Tianjin or Beijing, and neither journey takes more than half an hour. “None of this”, he says, “would have been possible without the highway.”

Langfang's example is one that local governments across China hope to emulate. As China continues its ambitious pace of highway construction, many are getting the chance. According to officials at China's transport ministry, the country now has 19,000km of highways, and 3,700km have been added each year since 1990. Growth will slow to 2,000km per year until 2020, by which time all major cities will be connected on a 55,000km nationwide grid that will be second in length only to that of the United States. Transport officials expect the impact of the highway network to be huge. Urban belts will emerge, lifestyles will change, and growth rates will surge at interchange towns as these become instantly more accessible and attractive to investors.

Much of the international development community shares the vision. Both the World Bank and the Asian Development Bank (ADB) are lending heavily to support China's road expansion. According to Bruce Murray, the ADB's representative in China, highway construction is vital for poverty alleviation, and it now forms the largest single component of the bank's China loan portfolio. Since 1998, the ADB has started to limit its road investments in China's prosperous eastern areas to focus instead on the needier western region. Another ADB priority, according to Mr Murray, is the development of the feeder roads without which smaller towns would be unable to capitalise on the potential of nearby highways.

But while local officials look longingly to the example of places like Langfang—where officials say annual GDP growth has hovered at 14-17% since the highway was built—central government planners are looking to avoid some of the problems experienced in other countries that fell in love with the open road.

“In the United States it is quite obvious that there is an excessive reliance on cars for personal use,” says Zhang Jianfei of the transport ministry's Planning and Research Institute. China plans to foster the use of roads for freight and commercial travel, he says, while discouraging car use for leisure travel and commuting.

Not unreasonably, Mr Zhang expects that the differences between the Chinese and American systems of government will make it considerably easier for the government to implement the hefty road tolls and fuel taxes to do it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Thailand

Party like it's 2545

Apr 18th 2002 | BANGKOK
From The Economist print edition

Is the Songkran festival getting out of hand?

EPA

Unequal contest

JUST before Songkran, the holiday marking the Buddhist new year, the Thai authorities sent out an edict banning traffic police from shooting at passing cars and pedestrians with water pistols. The only guns they were to carry, the ruling stated, were the normal, deadly ones. The police protested: since the revellers thronging the streets would be dousing anyone they came across with water and talcum powder, surely the police had a right to defend themselves in kind? Not even the men of the law, it seems, can resist a bit of Songkran high jinks.

In the eyes of many Thais, Songkran is not supposed to be celebrated this way. Traditionally, deferential youths sprinkle scented water on their elders in exchange for a new year's blessing. But these days, especially in cities like Bangkok and Chiang Mai, the sprinkling has become a soaking, with everyone a target. The elderly complain that the holiday has become a rowdy and drunken affair. Parents complain that children spend the day with their friends, not with their families. Women complain that men exploit the crowds and the atmosphere to grope and harass. Everyone agrees that the number of deaths from traffic accidents—around 500 this year, or five for every hour of the four-day festival—is out of hand.

Like Christians who gripe about the commercialisation of Christmas, many Thais feel that the original meaning of Songkran has been lost amid the increasingly rambunctious revels. The government, meanwhile, is eagerly promoting the party in a bid to raise tourism revenues. This year, for example, it stretched the holiday out with a week-long roster of parades and attractions. It built a special Songkran fountain to lure visitors to Bangkok, which is traditionally deserted for the festival as migrant workers return to the countryside to visit relatives. It worked: hotel-occupancy rates climbed markedly. An independent study reckons the holiday has injected some 18 billion baht ($410m) into the economy as a whole. But as far as the critics are concerned, that is just the problem: putting money before tradition.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

What happened at Jenin

Under the rubble of the refugee camp

Apr 18th 2002 | JENIN REFUGEE CAMP
From The Economist print edition

Reuters

Picking through fact and fiction after Israel's assault on Jenin

Get article background

MANY facts are known, others are still contested. On April 2nd the Israeli army invaded Jenin as part of its military operations to root out the Palestinian “terrorist infrastructure” which, in Israel's mind, now includes the Palestinian Authority. The conquest took three days. Then the army laid siege to the refugee camp just outside the town.

The camp had been among the prime targets of Israel's assault on the West Bank, along with the casbah in Nablus and the Palestinian gunmen sheltering in churches in Bethlehem's old city. Huddled on a northern mountain-side lush with cypress trees, it has long been a bastion of Yasser Arafat's Fatah movement and, recently, of Hamas and Islamic Jihad. Of the 100 Palestinian suicide bombers in the 18 months of the *intifada*, 23 were bred in its warren of poverty, breezeblock shelters, sloping lanes and a militant brew of Palestinian nationalism and radical Islam. “The Palestinian Authority doesn't really exist here. It's the fighters who run things,” said a camp resident, before the invasion.

For five days Israeli helicopters and tanks relentlessly rocketed the square kilometre of the camp to soften the resolve of the 160 Palestinian militiamen holed up within it. Men aged 15 to 45 were ordered by loudspeaker to surrender. Hundreds did so. They were stripped to their underwear, manacled, hooded, beaten and finally dumped in neighbouring villages. Some were used as human shields in front of the army as it pushed its way into people's houses. Women and children were told to flee to Jenin town.

By April 8th a UN official estimated that perhaps half of the camp's 13,000 refugees had gone. The army then tried to breach the camp's interior with infantry. “We figured it would be a breeze,” one reservist told *Haaretz* newspaper. It wasn't. Instead, 23 Israeli soldiers were killed, including 13 on April 9th from an elaborate ambush involving a suicide bomber, a booby-trapped house and a hail of gunfire.

It was then that the army took the decision to crush the resistance once and for all. There was an intensive blitz of shelling into the camp's heart, followed by an invasion of tanks and bulldozers, tearing down everything that stood in their way. The army insists civilians were given fair warning that the thrust was coming. Palestinians say it was a massacre, with anywhere between 100 and 500 Palestinians killed, most of them buried beneath the razed buildings.

Neither claim can be proved or refuted. What is beyond doubt is that the camp one week on from the

invasion is a scene of devastation that has had no equal throughout Israel's 34-year conquest and occupation of the West Bank and Gaza.

There is literally no house without bullet marks. Some have had lower floors sheared away by the blades of bulldozers or tracks of tanks. From one three-storey house all that is left is a stairwell, hanging in the ether, descending into nothing.

This is the lesser destruction. The camp's residential core—the last redoubt of the fighters—resembles an earthquake. Vast craters have been ploughed, girdled by shored-up mountains of earth, topped by concrete avalanches of houses, offices, a restaurant. It is a massive furrow the size of three football pitches.

There is a mass grave beneath it, insist Palestinians. Or, rather, say many, there was before the Israelis collected the corpses and sped them away while keeping the Red Cross, the UN and other independent witnesses firmly at bay. “I saw the soldiers dumping the dead in trucks...I saw this with my own eyes,” says a woman from the camp.

Less disputable acounts of horror are legion. A man describes what happened to his neighbours, the Fayed family. “We heard the bulldozers coming. Jamal told the soldiers they couldn't evacuate so quickly because of his disabled son. The soldiers suspected he was a wounded fighter. They pulled down the house with the son inside. That's where he's buried.” He points to a mound of earth.

Other Palestinians describe how, in the chaos of the assault, they had no idea whether they were supposed to stay in their homes or flee. “The orders were confused,” says one. “Some soldiers told us to get out, others told us there was a curfew. We decided to run and were immediately fired upon by the army. I have a wife, four daughters and three sons. I haven't seen them since that moment. I don't know if they're alive or dead.”

Whether there was a warning or not, the evidence of the Israeli army's absolute negligence in trying to protect civilian life is everywhere. One man describes how his elderly father was shot in the head while getting water from his kitchen, six metres from the room in which his family was sheltering. The son could not reach his father for six days because of the intensity of the shelling.

Nearby is the shell of another family home. Flies hover. There is the sweet, acrid stench of human decomposition. Three corpses lie inside. They might have been fighters or civilians. It is impossible to tell. Flesh, skulls and clothes have been burnt to a blackened pulp.

The army says the dead were left for so long because Palestinians refused to gather them, “for propaganda purposes”, a brigadier told *Haaretz*. A Palestinian doctor seethes with rage. “We could not leave our homes and the army refused to let any medic, Palestinian or foreign, into the camp for five days. How on earth could we remove them?”

On April 16th refugees in the camp picked through the detritus of their lives. A woman trips over a house reduced to a petrified mess of glass, crushed stone and tangled wire. Others are frantic for news about sons, daughters, husbands and wives missing in battle or in flight. Hundreds gather in a mosque used by the army as an observation post: there are torn Korans on the floor, piles of cigarette butts and empty vodka bottles.

“My husband was a fighter from Hamas,” yells a woman at a gaggle of journalists. “And I am proud he was a martyr...Where were you when the Jews were killing us?” Alone, she mellows a little. She looks out from a home without walls above a lake of sewage that was once the camp's main street. Two of her sons are missing. Her daughter's eyes are blank. “I know I will see him again in heaven,” she says. “But I would have liked to have his wedding ring...it's under the rubble.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Bethlehem under siege

Sanctuary in the church

Apr 18th 2002 | BETHLEHEM
From The Economist print edition

The Palestinians' last stand in the Church of the Nativity

Get article background

ONCE it was a shrine to hope; now no hope exists. In 2000, Bethlehem's Manger Square was smartened for the millennium with $200m-worth of restorations. Today it is the last bastion of resistance in the re-occupied West Bank, as Palestinians and Israeli soldiers engage in a bitter, snarling contest around the Church of the Nativity.

Israel invaded Bethlehem on April 1st. As in Israel's previous conquest of the city in 1967, Palestinians sought sanctuary in the church that marks Christ's birthplace. They joined the 35 or so friars, monks and nuns, most of them also Palestinian, who live in the compound. Among the 200-odd people seeking shelter are some 30 fugitives from Fatah and Hamas. The Israeli army insists that its armed siege of the church will not be lifted until these fugitives give themselves up. The stand-off continues.

An Israeli army spokesman has said that the army will not, under any circumstances, storm the church. Instead, say the Palestinians, the soldiers occasionally rake its ancient façade with machinegun fire, pitch grenades on the roof, shoot dead the odd Palestinian guarding its doors and set off high-pitch sirens to prevent people sleeping. Conditions inside are desperate, with food and even water in very short supply. “It's pressure. They're wilting,” says a soldier.

The same reasoning presumably lies behind the army's decision to keep Bethlehem's 48,000 other residents under curfew, despite an admission by an officer that all the “wanted ones” are holed up in the church. But it cannot explain the destruction. Bethlehem's newly repaired old city looks now like snipers' ally. The streets are bestrewn with smouldering cars rocketed by helicopters. Churches have had their doors torn out and their frescoes smashed by tanks. A statue donated by a German church has been crushed to dust by a bulldozer.

The besieged clerics say that they are not being held hostage by the gunmen but are custodians of the shrine, protecting its sanctity. Through spokesmen in their churches (they are mainly Franciscan with a few Greek Orthodox and Armenian) and through the Palestinian Authority, they have proposed various diplomatic exits from the confrontation.

One is that the Palestinian gunmen first disarm, and then go to Gaza or another “agreed location” under “international auspices”. But Israel's prime minister will have none of this. His solution for the Palestinians in the church resembles the one he has proposed to some of their fellows: surrender or permanent exile from Palestine. The Palestinian answer is a predictable no.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Powell as peace-maker

His master's voice

Apr 18th 2002 | JERUSALEM
From The Economist print edition

Has Powell been won over by Sharon?

Get article background

COLIN POWELL saw himself out after each of his two meetings with Yasser Arafat in Ramallah this week. His host could not accompany him to his car. “Is it acceptable”, Mr Arafat demanded of reporters crowding into his battered, beleaguered offices after his second meeting with America's secretary of state on April 17th, “that I cannot go outside this door? I ask the whole world.”

His confinement did, however, seem acceptable to Mr Powell when he held his own press conference later that day. It also did not seem unacceptable to the secretary of state that, despite repeated urging from George Bush to Ariel Sharon that he end Israel's massive invasion of the Palestinian areas forthwith, the tanks and troops should still be there as Mr Powell ended his ten-day trip to the region.

Small wonder that Mr Sharon looked so confident: he had cocked a calculated snook at Washington and emerged with American support for Israel unscathed. Even his proposal, which he suddenly produced this week, for a regional conference without Mr Arafat, was welcomed by Washington as worthy of consideration.

Mr Powell congratulated himself on having wrung from Mr Sharon something of a “timeline” for an eventual Israeli withdrawal. The troops are to be out of most of the towns theoretically controlled by the Palestinians by around April 23rd. But they will remain encircling these towns, poised, as Mr Sharon stresses, to re-enter them. Moreover, they will not leave Bethelehem and Ramallah, where, as Mr Powell told the press, America recognises that “special circumstances” exist.

Mr Powell said that he had “suggested” to Mr Sharon that it might be politic to afford Mr Arafat “greater access to his own people and to the rest of the world.” But at his press conference he showed no sympathy at all for the Palestinian leader's predicament. Mr Arafat, he said, must make a “strategic choice” to renounce terror and violence, and he must take that choice to his people. He must order his security forces to act against the militants. America was disappointed with his performance so far, and would be assessing his efforts in the coming days.

Mr Powell appeared to dismiss the Palestinians' argument that, with most of their government and security services and infrastructure bombed into ruins by Israel, their ability to stop the suicide bombers or other militants is severely curtailed. Mr Sharon seems to have prevailed with his counter-argument that the Palestinian Authority's security apparatus in Gaza is intact, and that thousands of PA policemen still remain in the West Bank.

This is disingenuous since the prime minister did intend to invade Gaza, but had to forgo that part of the plan for lack of time. And in the West Bank, Israel's targeting of PA police stations and government offices is widely interpreted as a reflection of Mr Sharon's desire to be rid of the PA, as well as of its chairman.

Another sign of this determination was the army's arrest of Marwan Barghouti, who leads Mr Arafat's Fatah movement in the West Bank. He was captured in Ramallah on April 15th. The Israeli government has long seen Mr Barghouti as the brain behind the Fatah militias, some of which in recent months have turned from guerrilla warfare in the occupied territories to suicide bombings inside Israel.

But Mr Barghouti is also an elected deputy in the Palestinian parliament. His arrest gives effect to Mr Sharon's designation of the PA as a “regime of terror”, and signals that national or elected status now

provides the flimsiest of immunity.

Sharon, the eager conferee

On longer-term matters, Israel and America may be less close. Mr Powell affirmed support for the idea of two states, and cited speeches by Mr Bush, recent UN resolutions, and the land-for-peace initiative floated by Saudi Arabia. The administration, he said, was now willing to throw its weight behind international efforts. A conference might be one way to move.

But for Mr Sharon, suddenly an eager conferee, as for his Likud predecessor Yitzhak Shamir at the time of the Madrid meeting in 1991, the purpose of participating in a conference may be to be seen to move without actually arriving anywhere. Mr Shamir once admitted that he hoped Madrid would last ten years. Possibly, the present Bush administration will be prepared to call Mr Sharon's bluff. But there was no sign of that this week.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Congolese peace talks

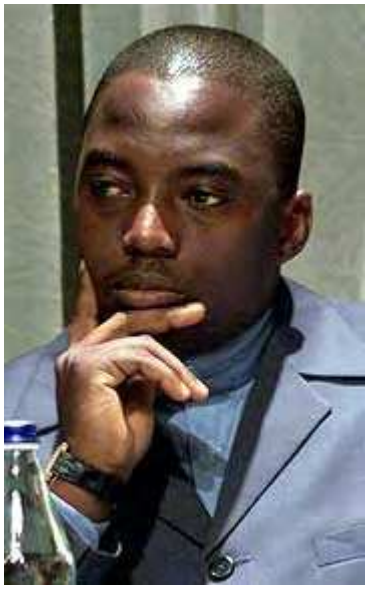
Snapping at peace

Apr 18th 2002 | SUN CITY
From The Economist print edition

The thwarted efforts to end nearly six years of Congo's war

Get article background

Reuters



Kabila likes his job too much

OPPOSITE the crocodile sanctuary at Sun City, a South African holiday resort, hundreds of delegates from Congo have been sitting in white tents talking of peace. For six weeks they merely bickered amid the gambling halls and golf courses. But in the past ten days they have made progress, of a sort. It now looks as if some kind of deal will be signed this week. But it is unlikely to bring peace.

The delegates represent the government of Joseph Kabila and several opposition and rebel groups. By mid-week, they had accepted 21 broad policies on financial, economic, social and humanitarian matters as the basis for a future transitional government. Above all, they had agreed, in principle and eventually, to integrate their various armies, many of them supported by foreign governments, into a single national one. A similar deal is likely for the police and other security forces.

But they remained hopelessly divided over the sharing of political power. And unless the rivals can agree on this, first within the capital, Kinshasa, and then across a territory the size of Western Europe, their good intentions are unlikely to end a war that has already claimed hundreds of thousands of lives.

The talks should have finished on April 12th, when no progress at all had been made on power-sharing. Mr Kabila will not consider giving up the presidency, which he assumed last year after his father, Laurent Kabila, was killed. And though he has not got much of an army himself, Mr Kabila is supported by several thousand Zimbabwean soldiers. Then, at the 11th hour, even as delegates were being evicted from their hotel rooms, South Africa's president, Thabo Mbeki, came up with the idea that Mr Kabila should stay on as Congo's interim president but share some power with his rivals.

The strongest of these, the Congolese Rally for Democracy (RCD), promptly agreed, as it would get a vice-president's post and control both of the new integrated army and of arrangements for general elections in two or three years' time. The RCD, which controls eight provinces in eastern Congo, is a proxy of the Rwandan government.The proposals would apparently allow for some of its soldiers, perhaps a brigade, to be posted in Kinshasa as part of the new national army.

But the South African plan greatly worried Mr Kabila. His team said that Mr Mbeki's proposals were “almost equivalent to a coup d'état and would bring conflict from the field into the government”. So, instead, the government has struck a deal with the other large rebel group from Congo's east, Jean-Pierre Bemba's Movement for the Liberation of Congo, which used to be backed by Uganda's army, but is now more on its own.

Under this deal, the wily Mr Bemba will become prime minister, with the power to appoint ministers and civil servants, and will share control of the army through a defence council. The arrangement, apparently, has the support of both Angola and Uganda. It leaves the RCD excluded and isolated, and will allow Mr Kabila to portray the war as one against Rwandan “invaders”. But it falls far short of the peace and power-sharing that many Congolese want.

An RCD spokesman immediately called the deal “rubbish”. An alarming report from UN officials says that RCD soldiers have mobilised in eastern Congo. It began to look dangerously as if war could restart. Getting the crocodiles to make peace might have been easier.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Africa's rescue plan

Words and deeds

Apr 18th 2002 | DAKAR
From The Economist print edition

African leaders defend their plan at a meeting with foreign investors

EPA

Wade welcomes Moi to the talkathon

OF ALL the rescue plans for Africa put forward over the past 30 years, the New Partnership for Africa's Development (Nepad) has claim to be the most ambitious, comprehensive and authentically African. Along with the familiar references to poverty eradication and sustainable development, Nepad's founding documents talk of good governance and respect for human rights. Its aim, it says, is to find a “holistic, comprehensive, integrated, strategic framework for the socio-economic development of Africa”.

The jargon may be a bit off-putting, but South Africa's president, Thabo Mbeki, Nigeria's Olusegun Obasanjo and Algeria's Abdelaziz Bouteflika are all deeply involved in Nepad's creation. And one of its most enthusiastic champions is Senegal's president, Abdoulaye Wade.

Mr Wade, who was elected two years ago after decades in opposition, is an inveterate networker with a relentless schedule. He lost no time in appointing himself Africa's spokesman. His own Omega plan for the continent burnt briefly last year, and many of its main ingredients have reappeared in Nepad, notably the request for vast amounts of foreign investment to sponsor public-works programmes.

In a bid to put money where his mouth is, Mr Wade this week invited hundreds of foreign investors to Dakar, Senegal's capital, to attend a conference on partnership with the private sector. Dakar's hotel lobbies were jammed with presidential delegations and corporate enterprises. “Africa is open for business,” was the happy message from the organisers, with Mr Wade welcoming his guests to “the continent of creativity and invention.”

With this build-up, the conference should have been a showcase both for Nepad and for Senegal. But despite the lavish hospitality and the sturdy optimism of the keynote speeches, it was not quite a landmark event. Workshops on such topics as energy and agriculture had heads of state—including Mozambique's Joaquim Chissano, and Côte d'Ivoire's Laurent Gbagbo—pressed into service as moderators, trying to steer debates that went round and round in circles.

As Mr Gbagbo pointed out: “You have to do the talking first, the action will come later.” More sceptical observers suggest that Nepad could be let down by its love for grand ideas, and the scope of its ambition. A sympathetic investor, talking of white-elephant projects, urged the African leaders to “think small”. But Mr Wade and his colleagues like to think big.

Nepad owes much of its backing in Europe and North America to its founders' concern for democratic values, and their belief that growth is dependent on a stable political framework. Given this, some of the delegates were a bit disturbed to find that it was Kenya's president, Daniel arap Moi, who delivered the keynote speech at the start of the conference. Mr Moi's time in office has been marked by persistent charges of electoral fraud, human-rights abuse and government corruption, the very viruses that Nepad has pledged to remove from Africa. Mr Moi repeated the usual mantras about investment and transparency—but then gave warning that the main threat to Nepad's success would come from hostile journalists.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Uganda's rebel child-soldiers

The lord's army resists

Apr 18th 2002 | NAIROBI
From The Economist print edition

Ugandan-Sudanese co-operation could spell the end for the child-rebels

THE Ugandans promise to kill no more children than absolutely necessary. But the Lord's Resistance Army's brainwashed child-fighters seem determined to fight to the death. They will not surrender even though, after a three-week offensive, Uganda has razed their camps, cut off supplies, and chased them across southern Sudan.

Until last month, Sudan's government was supplying the LRA with weapons. But it has now changed tack, partly in return for Uganda's promise not to support Sudan's own rebels. This week, a Sudanese army unit advanced close enough to a group of 1,000 rebels cornered near Juba to hear babies crying. When the LRA opened fire, the unit let the group through its lines, to move south for the Ugandans to deal with.

There could be 5,500 children in all, says the United Nations. But, so long as they refuse to parley, it will be impossible to know. In 16 years, the LRA has abducted 15,000 children from northern Uganda, to use as fighters and as sex-slaves. The army says it has rescued 8,000 in battle, and handed them to charities for deprogramming. But it had to kill many in the process.

The children's resolve is consistent with their leader's policy of bloodying new recruits, some as young as six, by making them bludgeon to death anyone who tries to surrender or escape. A self-declared spirit medium, Joseph Kony claims to be possessed by the Holy Spirit, and to have been called by God to replace the Ugandan constitution with the Ten Commandments. A former altar boy, he preaches a blend of Catholicism, traditional spirit worship and the occult. Some 500,000 people have been displaced by his movement's terror attacks.

Uganda's forces are now concentrated in the Imatong mountains, just north of the border. The main LRA body, including Mr Kony and an estimated 5,000 fighters, have taken refuge in the mountains, after overrunning the camps of a local pro-government militia.

Uganda says it will take its elite forces several weeks or more to get the child-fighters down from the hills. But this time, it is determined to finish the job. Even those rebels who have fled north of the “red line”, beyond which Uganda's troops may not go, must be captured or killed, it says. However, the Sudanese government is coming under presure from Islamists to end its co-operation with Uganda, and expel foreign troops. Awkward, but both countries say there is no danger of them coming to blows, as they so often have before.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

A challenge in Italy

Silvio Berlusconi is put to the test

Apr 18th 2002 | MILAN
From The Economist print edition

AP

Will Italy's prime minister, Silvio Berlusconi, be cowed by demonstrations on the streets or have the guts to embark on much-needed reform?

Get article background

FOR a whole day, on April 16th, Italy came to a standstill. The main declared reason for the general strike, called by the country's three biggest trade-union groupings, together numbering 11m people, was to protest against an attempt by the prime minister, Silvio Berlusconi, to reform Italy's labour laws, in particular Article 18 of a statute that forces companies to reinstate workers deemed to have been fired "without just cause". It was the first day-long general strike for 20 years. But this week's stoppage was also highly political. The target was not just the labour-law proposal but Mr Berlusconi himself. For the first time since he came to office last June, the left thinks it may have rattled the country's controversial prime minister.

For once it was able to rally behind a figure, in the shape of Sergio Cofferati, boss of the CGIL, the largest and most left-wing of the three union bodies. Affable in manner, Mr Cofferati has been doggedly consistent and conservative. He wants Italy's labour market to stay as rigid as it is, with jobs for life and unions making the country's economic policy together with the employers and the government. The more moderate left, after being crushed by Mr Berlusconi's coalition in a general election last May, seems—at least for the time being—to have set aside its modernising views; it talks less admiringly, these days, of Tony Blair. Instead, it has decided to cosy up to Mr Cofferati and his friends from the old Communist movement. Rousing rallies in city squares may turn out, after all, to be the best way of inspiring what has been a feeble and divided opposition to the government. Mass demonstrations, some recall, helped bring down Mr Berlusconi's previous shorter-lived government, in 1994.

He is unlikely to fall so easily again. A general strike is a weapon whose effectiveness tends to weaken if it is used more than once. In a few days, Mr Berlusconi's government and the unions will start talking. He has a good case to argue. Italy's labour market is notoriously sticky. Among EU countries, Italy has the lowest proportion of working-age people, 54%, in jobs. Reform in this area is crucial if Italy's economy is not to slip further behind its main competitors, as it has in the past decade.

When Mr Berlusconi and his economy minister, Giulio Tremonti, spoke to thousands of industrialists recently gathered in Parma, they both mentioned Margaret Thatcher in tones of adulation. It was despite the unions, they said, that she changed Britain. Her name drew cheers. The industrialists have become twitchy about the slow pace of reform under the new government. "It has taken only a few steps and not always in the right direction," said Antonio D'Amato, chairman of the employers' main club.

When it took office, the government promised to cut taxes, overhaul pensions, create jobs, curb illegal immigration, and reform education and health care. So far, little has happened. One reason is that Mr Berlusconi seems to have been preoccupied with his own problems, both in court (where he faces corruption charges) and in the media world (where he has pondered whether and how to divest himself of some of his vast assets). Italy's richest man, he has been criticised for failing to disentangle his private and public interests. The once-separatist, always unruly, Northern League has already become a tiresome coalition partner. Adding the foreign ministry to his responsibilities, after losing Renato Ruggiero in January, may have given Mr Berlusconi too much to do.

In any event, the prime minister and his team have been unduly timid and tentative. Take education. The government promised radical change. Children would be able to use public vouchers to enable them to attend private schools. The curriculum would be revamped. But Letizia Moratti, the education minister, has been browbeaten both by the conservative teachers' unions and by students spoiling for a fight. Reforms of the health service, including a controversial proposal to make people again pay for a share of their medicine, have hardly got off the ground.

A few notable laws have been passed. A bill has been enacted to persuade Italians to bring money back from abroad without having to declare it to the taxman. This week Mr Tremonti forced a bill through parliament to encourage people to come out of the “grey” economy. But elsewhere plans have stalled. There is little sign that the building of new roads and other grand infrastructure projects has begun. Nor has the government managed to sort out the mess over illegal immigration that it inherited from the previous centre-left administration. The government has yet to start overhauling Italy's costly state pension system. Nor has it managed to cut taxes. Indeed, some local taxes have been going up.

On the broader canvas, the economic picture is bleaker than Mr Berlusconi had expected, partly due to the events of September 11th. This year the economy may grow by only 1.5%. The budget deficit may go down only to 1% of GDP, not the 0.5% figure that Mr Tremonti promised. The economy minister has called for patience. Mrs Thatcher, he reminded industrialists last week, launched her economic revolution only in her second term of office.

But at least Mr Berlusconi and his team seem to be steeling themselves to loosen the labour market, even if that will mean facing down the unions on the streets. Most politicians, even on the left, acknowledge that the long-cherished Italian ideal of a job guaranteed for life is no longer sensible. It was notable that people aged between 50 and 59 were twice as likely to approve of the strike as those between 20 and 29. Industrial jobs are in any case dwindling. But the climate for negotiation is poor. Last month's murder by far-left terrorists of Marco Biagi, a reform-minded labour-law professor who had been advising the government, made it even worse.

It is unclear what Mr Berlusconi will now do. The trade unions clearly want him to slow down; businessmen are urging him to press on. Middle-of-the-road voters are puzzled. The opinion pollsters, whose findings Mr Berlusconi scrutinises, say his ratings are slipping. In such circumstances, will he risk unpopularity for a hoped-for long-term good? Or will he succumb to a mushy compromise—and let the chance of real reform go begging?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

France's presidential election

The widest-ever choice

Apr 18th 2002 | PARIS
From The Economist print edition

The first round of voting for a French president will be a bizarre affair

Get article background

AP

Grimly neck-and-neck, a leading couple with little to smile about

PITY the opinion pollsters as France goes to the ballot box on April 21st to begin choosing its next president. When there are 16 candidates, compared with a previous record of 12 in the 1974 election, when getting on for two-fifths of the voters say they will decide only at the last minute and when quite a few people probably lie anyway (not everyone admits to being a neo-fascist in a door-step interview), sounding out opinions can hardly be an exact science. Will Arlette Laguiller really get 8% or more with her message of Trotskyite revolution? Will Jean-Marie Le Pen, with his extreme xenophobia, really come close to the 15% he won last time, in 1995?

But pity the two front-runners too. For months, the conservative incumbent president, Jacques Chirac, and the Socialist prime minister, Lionel Jospin, have been neck-and-neck in the polls, not just for this weekend's first round of voting but also for the run-off between the top two on May 5th. Not so long ago, it was Mr Jospin who seemed to have the edge; just lately it has been Mr Chirac. But, though Mr Chirac now “senses” he will win a second term, neither man can be at all certain: the gap has remained stubbornly within any sensible pollster's margin of error.

One reason is that their programmes are so similar. When both men talk of combating crime—the number-one issue for the voters—by setting up a “super-ministry” to co-ordinate France's rival police forces, when both say they will cut taxes and help the young unemployed, it is only the professional pundits who can be bothered to look for the difference in the detail.

Another reason is that familiarity has bred contempt for both men. Mr Chirac, now 69, has been in politics for four decades. He first bid for the presidency in 1981. Mr Jospin, 64, has been around almost as long. For the past five years, since Mr Chirac called a premature general election which, against expectation, was won by the left, the two men have had to endure a “co-habitation” that has turned increasingly sour. Meanwhile, for a bored electorate, the scandals besmirching Mr Chirac's reputation (a satirical television show has wickedly named its Chirac-puppet “Superliar”) are cancelled out by the stiffness of Mr Jospin, invariably too prim and proper for his own electoral good.

But the third reason is one of simple arithmetic. The more candidates, the lower the vote for the presumed top two. Christiane Taubira, the one candidate who is both black and female, may get only 3% or less of the vote with her call for “cultural diversity” rather than “zero tolerance”, but her appeal, presented with a heady mix of rap and jazz, is to young voters who, conventional wisdom dictates, should be behind the socialist Mr Jospin. Take into account the appeal of the three Trotskyite runners, of the sole Communist and of Jean-Pierre Chevènement, an old-style socialist whose old-fashioned “republicanism” appeals also to the nationalist-minded right, and Mr Jospin will be lucky to get 20% in the first round.

So, too, Mr Chirac, as conservative-minded voters are wooed by the pro-Europe François Bayrou (see article) or by a professed Thatcherite, Alain Madelin, or by the family values of Christine Boutin, let alone by Mr Chevènement or by the far right of Jean-Marie Le Pen or Bruno Mégret. Throw in a couple of

spoilers—the green vote for Noël Mamère or Corinne Lepage, or the countryside vote for Jean Saint-Josse—and the run-off will be between two men whose support in the first round may well have been the lowest ever.

Does that matter? Arguably, it is a strength of France's democracy that a citizen can cast a protest rather than a “useful” vote in the first round; that votes can first be made from the heart and later from the head. And certainly it gives the also-rans a chance to influence the front-runners. If, for example, the Communist Party's Robert Hue were to exceed the pollsters' dismal predictions, a President Jospin would have to take note. Similarly, a strong vote for Mr Madelin might encourage a President Chirac to add a dash of free-market liberalism to France's economic recipe. Moreover, some of the also-rans can expect to become ministers in a new president's government.

But a doubt nags: perhaps the strength has become a weakness. If you believe the pollsters, the vote this weekend will lead to a run-off on May 5th between two candidates who between them have won just two-fifths of the vote in a first round for which fewer than 70% of the electorate bothered to turn out. Then assume that, as in 1995, a quarter of the electorate either abstains or votes “*blanc*” in the second round. The winner, be he Mr Chirac or Mr Jospin, will be a president who represents all France's citizens but is the first choice of too few for democratic comfort.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

France's election

Slap happy

Apr 18th 2002 | PARIS
From The Economist print edition

A presidential candidate is boosted by his unfashionable flash of temper

Get article background

EPA

The clout won him fans

HOW many votes come with a slap in the face? Until a few days ago François Bayrou, the pro-Europe presidential candidate of the centrist Union of French Democracy, was having a hard time campaigning. Indeed, even members of his own party were lukewarm in their support. Yet in the first round of voting on April 21st he now has a fair chance of a notching up a respectable score of, say, 6% or 7%—nearly double the figure predicted by pollsters a month or two ago.

The explanation is simple enough. While visiting a "difficult" suburb of Strasbourg last week, Mr Bayrou noticed his pocket being picked—and rewarded the culprit, 11-year-old Yacine, with a quick (and doubtless instinctive) slap to the face.

Shock horror, for the politically correct. Yacine's mother, whose work in a supermarket starts at three in the morning, told the left-leaning *Libération* that Mr Bayrou had no idea what it was like to live in the "jungle" of public housing. She and her husband, on sick leave since an accident at work 18 months ago, were cooped up with five children in a tiny flat: Yacine was no thief, just "a little devil" trying to show off.

Ah yes, but this is politics—and crime and the unruly youth of the poor suburbs are voters' top concern. Hence, post-slap, a record number of callers to the radio talk-shows. Most were in Mr Bayrou's favour.

Meanwhile, the once-barely-visible contender has played his cards well. Not only did he accept with good grace being hit with two cream tarts a few days later (after all, being a target of the pranksters means you have become politically significant), but he made a mollifying phone-call to Yacine's mum too. As for the little devil himself, Mr Bayrou's slap was not his only punishment: he also had a couple from his parents. If Mr Bayrou does end up among the top six or seven candidates this weekend, perhaps he should send Yacine some pocket-money to ease the pain.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Dutch politics

Old massacre, new casualties

Apr 18th 2002
From The Economist print edition

Dutch feelings of guilt about an event in 1995 have prompted a government to go

IT WAS, beyond question, a disgrace. During ex-Yugoslavia's vicious internecine wars, the United Nations declared a “safe” area, essentially for its Muslim inhabitants, around the Bosnian town of Srebrenica. The Bosnian Serbs thought otherwise, shelled the place, then seized it, drove out the Muslims, and ultimately butchered over 7,000 Muslim men and boys. The UN troops supposedly guarding the “safe” area were Dutch. And what did they do to stop the Serbs? Nothing.

Yet all this happened seven years ago; everyone has known the basic facts for all those years; and everyone knew, broadly, why it happened—because the Dutch soldiers were far too few, and neither properly armed nor supported, even if they had been strongly mandated, motivated and commanded, to resist the Serb soldiery. The UN had bungled. So why, after days of public breast-beating provoked by a huge Dutch report into every detail of the affair, did the Dutch cabinet this week resign?

Though it was an earlier government that had sent the troops, today's prime minister, Wim Kok, after all, was prime minister in 1995. He did not quit then. His three-party coalition, elected in 1994, won a still larger majority in 1998, and has governed with much success. A fresh election was due anyway on May 15th. Mr Kok had already handed over his Labour Party leadership to his chosen heir, and hoped—though it recently had looked unlikely—to be able to pass on the prime ministership as well, once the often laborious business of Dutch coalition-making was complete.

Instead, he decided to offer the cabinet's resignation. His environment minister, Jan Pronk, who was a minister, if only for development aid, in 1995, was ready to quit anyway; now 62, he is a man of high moral standards and happy for the world to know it. A church report on Srebrenica published three weeks ago had already led him to condemn “the failure of politics” in the affair. The new report, officially commissioned six years ago, though damning past political decisions, did not suggest today's cabinet could be reproached. Mr Pronk, vigorously, did. The current defence minister, Frank De Grave, said he too was ready to resign; the army had concealed facts in 1995, to hide its own faults. To Mr Kok it looked politically wiser to offer the lot. So be it, said Queen Beatrix, but please carry on as a caretaker—as he would have for a time after the election anyway.

The affair may yet help his party. Dutch politics was already recovering its balance after the meteoric rise of the populist Pim Fortuyn last month, as voters returned to their old allegiances. There is now a lot of sympathy for Mr Kok, a respected leader brought low by a seven-year-old affair which, though he has accepted responsibility, was not his fault.

Nor was it only or even mainly that of the Dutch. A virtuous people, still troubled by the fate of their own Jewish minority in 1940-45, they are ashamed of their politicians' and soldiers' role in 1995; and the more so given that their own capital, The Hague, now houses the tribunal judging war crimes in ex-Yugoslavia. Pushed by the public, the government sent troops to keep peace where there was none, untrained for that task and with very little military or political intelligence. The army chiefs later rejected CIA offers to smuggle communication-tapping equipment to the Dutch force in Srebrenica. The troops did not fire a shot when the Serbs marched in. They later aided (eager) Muslim women and children to flee Srebrenica, well aware that the men's fate was “uncertain”, though not expecting mass murder.

Yet whose fault was this? Not just were the Dutch too few to defend anything, they were not meant to: the UN thought their mere presence would deter an attack, and they could shoot only if shot at themselves—which the Serbs carefully avoided. UN intelligence no more foresaw the Serbs' sudden attack, after months of shelling and skirmishes but not more, than the Dutch did. When it happened, the Dutch expected UN air strikes. None came (although not, says the report, because the UN force

commander had made a secret deal with the Serbs, as has been alleged).

Nor yet did the UN foresee the later massacres any better than the Dutch. And, though their kin have raged against the report for saying so, not all the victims were blameless innocents: Muslim troops in the—supposedly demilitarised—safe area had both launched forays from it and treated Serbs inside it brutally. Yet that cannot excuse mass murder. The truly guilty were neither Dutch nor from the UN, but Bosnian Serbs. The Hague tribunal has sentenced one general directly involved, Radislav Krstic, to 46 years. His military chief, Ratko Mladic, and his political one, Radovan Karadzic, are still at large.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Russia's presidential message

Putin's frustration

Apr 18th 2002 | MOSCOW
From The Economist print edition

Russia is stable and making progress, but not fast enough for its president

HE MUST wish he had never mentioned Portugal. In 1999 President Vladimir Putin noted that Russia would need 8% growth for 15 years to catch up with the then living standards in that inoffensive country. But Russia's economic growth this year, if official statistics are to be believed, will be less than half of that. At current rates, Mr Putin will be dead before Russia overtakes the EU's poorest country.

Despite that yawning gap, Russians have plenty to be pleased about, half-way through Mr Putin's first four-year term in office. Never in living memory has Russia been so stable, respected or prosperous. But the standards of the past are so dismal that this is not saying much. The country is no longer a disintegrating menace, with a wobbly and erratic president at the helm. But it is still far from real prosperity.

Mr Putin, who gave his annual state-of-the-nation speech to Russia's parliament on April 18th, is visibly impatient. After briefly praising achievements so far, he spent the biggest part of his hour-long speech complaining about bureaucratic and other obstacles to growth, which he insisted was not nearly fast enough. “To ensure proper living standards and for Russia to remain an important and full member of the world community, our economy must grow much faster,” he said.

On paper, the Russian government's record is impressive. Lower, simpler taxes; deregulation; a new law on land sales; reform of the courts; a new criminal code: all that and more in two years is quite something. Russia's public finances, thanks to the high oil price since 1999, will be in rude good health, for the coming year or so. The current menu includes a law on rural land sales; a banking clean-up; more tax reform; the completion of a new bankruptcy code; and a private pension system.

The problem, as Mr Putin noted in his speech, is that most of the reforms bog down in the bureaucracy. Most Russians find it is simpler to pay a quick bribe than spend time fighting misrule in court. Eventually the new ways may begin to work but not any time soon. For all its potential, Russia is therefore still not an attractive place to do business. Investment, foreign and local alike, is puny. Russia's economic bounce-back since 1999 owes as much to high oil prices, a big devaluation and the country's hardy businessmen as it does to Mr Putin's new stance.

In his speech, the president tried to give reform a kick, urging the government to revamp the state administration, which he rubbished as badly run and corrupt. And he championed integration with the outside world. Only that, he said, would make the country “rich and strong, comfortable and safe”. But the speech was short on specifics, and Mr Putin covered much of the same ground in last year's address.

Probably nothing much will happen soon. Solving Russia's huge problems of poverty, decay and disease needs years, if not miracles. That should not stop Mr Putin winning a second term, if he wants one, in 2004. Politics is well under Kremlin control. So far, Russians' lingering gloom and discontent hardly seem to be rattling a head of state who many of them think is doing a worthy job in the circumstances.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Turkey's Kurds

No change?

Apr 18th 2002 | ANKARA
From The Economist print edition

The former separatists have changed their tune. The government hasn't

Reuters

Ocalan captured, still behind bars

TURKEY has for years complained about the EU's failure to put the Kurdistan Workers' Party (PKK) on its list of terrorist outfits. Allegedly—it's nonsense—this amounts to EU backing for a Kurdish state carved away from Turkey.

Now, just as the European Commission was at last ready to finger it for its past undoubted terrorism, the PKK said it had "fulfilled its mission" and been dissolved; its members had regrouped, with new aims, as the Kurdistan Freedom and Democracy Congress. Just a tactical ploy to escape condemnation, sniffed the Turkish government. Had not the new party elected Abdullah Ocalan, the rebel chief who led the PKK until his capture in 1999, as its chairman? Nay, added the Turks, it still keeps some 5,000 men under arms in Kurdish-run northern Iraq for "self-defence."

Yet behind their breezy dismissals Turkey's leaders are deeply worried by the rebels' shift. No longer do these talk of fighting for independence, and having unilaterally declared a ceasefire they have more or less stuck to it. Now, they say, they want the country's 12m-odd Kurds to be able to be taught, to publish and broadcast freely in their own tongue as full and equal partners in a "united and democratic Turkey." And an end to the death penalty, which still hangs over Mr Ocalan. In short, many of the things the EU says Turkey must do before it joins the European club.

In Kurdish matters, the government is doing much the opposite. Hadep, the most popular pro-Kurdish party, is threatened with a ban for acting, supposedly, as the PKK's political arm. Within weeks of its launch in February, Hakpar, a new Kurdish party hostile to Mr Ocalan, was accused of promoting separatism, so also risked a ban. A bus driver this month got a three-year jail sentence for playing Kurdish tunes for his passengers. And in amendments to a media law now near a vote in parliament, the ban on Kurdish-language broadcasts is untouched.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Charlemagne

Renate Künast, would-be farm reformer

Apr 18th 2002
From The Economist print edition

No longer can German farmers rely on "their" minister for protection. She's a Green, eager for change

THE European Union's agriculture ministers could not quite believe what had hit them when the diminutive, spikey-haired woman from the reputedly anti-farmer German Greens first burst into their cosy club just over a year ago. Renate Künast was blunt, pushy and, she confessed, wholly ignorant of farming and the labyrinthine complexities of the EU's agricultural policy. Yet she started lecturing the old hands about ways to shake up the policy, the industry and the world as they knew it.

In Germany, the EU's second-biggest agricultural producer, farmers were no less shocked. They were getting a woman minister for the first time, and a Green one, at the head of a disturbingly revamped ministry for "consumer protection, food and agriculture"—in that order. Henceforth, Chancellor Gerhard Schröder proclaimed, consumers' interests, not those of farmers, would come first. Germany's entire farm system was to be restructured. Any "howls of protest" from the powerful farming lobby would be ignored, he added. Industrial farming was out; environment-friendly farming in. Billions of D-marks in subsidies were to be redirected accordingly. Or so it was believed.

At the time, Germany, like much of Europe, was in the midst of the "mad cow" panic. Foot-and-mouth disease was soon to follow. The debate over genetically modified foods raged. Consumer confidence in food safety plummeted. The new minister promptly declared that she would promote "quality instead of quantity", and announced plans to boost organic farming from just 3% of German agricultural land use to 20% by the end of the decade. Farmers seethed. Experts proclaimed her goal unrealistic. The German public cheered. Organic equalled safer as well as healthier, did it not? Three out of four said they would like more of it. One in three claimed a readiness to pay up to 50% extra for organic products. Within weeks, Miss Künast, till then a fairly unimportant co-spokesman of the small Green party, had shot to the top of the popularity charts, just behind Mr Schröder and Joschka Fischer, the foreign minister.

A year later, how far has Miss Künast's green revolution got? Not far, sneer her critics. Germany's mainly conventional farmers still produce all they can, to maximise their earnings, regardless of demand or the environmental effects. The mad-cow scare has died down, foot-and-mouth too, and the pressure for reform has dwindled. Consumers are still counting their (ex-) pfennigs, and losing interest in Miss Künast's crusade for healthier, more humane farming. Farmers, emboldened by their partial return to public favour (and overlooking their actually rising incomes), blame her for a "catastrophe" on the land. And Mr Schröder, never much interested in farming, has an election to fight.

Still, behind the scenes, Miss Künast has been battling on against an army of entrenched interests and powerful farming, food-processing and retailing lobbies. And not in vain. Over the past 12 months, she has launched a "bio" label for organic products; banned battery hens from 2007; ended subsidies to farmers raising livestock on cruel slatted floors (easy to keep clean, hard for the beasts to stand on); set up a national food-control agency; and introduced a bold consumer-information bill in parliament to encourage environment-friendly farming. Under the EU's "Agenda 2000" farm policies, EU governments can already divert up to 20% of direct payments ("direct", as distinct from price supports) aimed at their farmers into rural development and environmental projects, provided the EU funds are matched with national cash. But until now, Germany, like most other EU countries, had made no use of this provision. From next year, Miss Künast plans to take two points of that 20% for these good purposes. So she may not have got far, she admits, but at least she has made a start, and she will press for much more.

In Brussels too she has been busy. After a tricky start, when she put many noses out of joint with her bossy, schoolmarmish ways, she has now won respect for her pragmatic approach and grasp of a complex subject, and is seen as one of the heavyweights behind the push for a swift and comprehensive

reform of farm policy. “She has come as a breath of fresh air,” says a British official. She is pressing for the progressive dismantling of all direct farm payments, abolition of milk quotas, decoupling of subsidies from production, an end to the compulsory set-aside of farmland, less intervention in markets, and a shift of funds into rural development, environment-friendly farming and animal welfare. She believes this is not only the way to healthier living and a more attractive countryside but good for the global economy as well.

Things may go her way

Worried about the impact of the EU's eastward enlargement on its already huge farm-policy bill, Germany wants the European Commission to use its mid-term review of Agenda 2000, due to begin this summer, to introduce a “fundamental refocusing” of the policy. In public, the commission appears reluctant, saying it wants to limit itself to a simple fine-tuning of policies until Agenda 2000 runs out in 2006. In private, it is far keener about the direction in which Germany and others such as Britain, the Netherlands, Denmark and Sweden, are pressing. Once the French elections are out of the way, it could change its tune. In the past, France, the EU's largest agricultural producer and biggest beneficiary of farm aid, has been the main stumbling block to reform, while Germany, though often initially on the side of the reformers, has usually ended up by caving in to its most important European partner. This time, things may turn out differently. A more self-confident Germany is gradually easing itself out of the strait-jacket of its marriage with France. Miss Künast, unlike her predecessors, appears determined to stand up to German farmers. And even the French, under their new agriculture minister, François Patriat, are beginning to sound a bit more receptive to ideas of reform. There is hope.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The budget

Gordon's gamble

Apr 18th 2002
From The Economist print edition

Reuters

The chancellor is taking unnecessary risks to save the National Health Service

Get article background

IN THE past 40 years there have been at least three intellectually formidable chancellors of the exchequer—Roy Jenkins, Nigel Lawson and, now, Gordon Brown. Each exerted an easy domination over Whitehall's brainiest and most powerful department. Within government, each conducted policy on his own terms. Despite or, perhaps, because of this, Mr Jenkins and Mr Lawson both proved lethal to their parties: the former because he insisted on Gladstonian orthodoxy on the eve of an election; the latter because he allowed the resurgence of inflation that led in the end to the Tories' decline and fall. Might Mr Brown be going the same way?

For a man whose favourite words are “prudent” and “cautious”, Mr Brown is taking some big risks. Perhaps his huge self-confidence and delight in command, which give him the air of a man who has come to believe himself invincible, have turned him into a gambler.

In purely economic terms, the budget looks just about prudent. Although Mr Brown's forecasts are optimistic, especially his belief that Britain's ability to grow over the long-term is now a full quarter of a percentage point higher than it was before Labour entered office, they are not reckless. Nor is his fiscal policy likely to frighten the horses: public sector net debt as a proportion of GDP is expected to stay roughly constant for the next five years, while the budget deficit will remain modest. Tax as a proportion of GDP will continue to climb, but it will not be much higher than when Margaret Thatcher was prime minister.

A cynical reading of the budget might suggest that Mr Brown is not taking political risks, either. He may be raising taxes now to cut them just before the next election. After all, that is what he did in the last parliament. But the figures and rhetoric he has produced, committing the government to whacking year-on-year increases in spending on the National Health Service, suggest otherwise.

Can the NHS take it?

So Mr Brown does seem to be taking real risks. And the odd thing is that they are, for the most part, avoidable. Few would disagree with his view that health care is underfunded. Overall spending on health care in England (Scotland and Wales spend a good bit more) is much lower than in other rich countries and standards are correspondingly lower. Mr Brown is also on safe ground when he claims that most people would like to see something done about it. But his solution represents a large and probably unnecessary gamble.

The first part of Mr Brown's gamble is that the NHS may not be able to absorb all the extra cash he is providing. There is already evidence that it has had some difficulty making use of the additional resources it has received over the past couple of years. The review of the future funding needs of the NHS carried out at the chancellor's behest by Derek Wanless, a former banker, states that the real spending increases of more than 7% a year for the next five years that Mr Brown has committed himself to are “at the upper end of what could sensibly be spent...to be wisely spent they would represent a very considerable management challenge. The risk of spending being ineffective rises with the spending growth rate.”

The second part of Mr Brown's gamble is that to help pay for this unprecedented increase in funding—a 43% rise after inflation by 2007 is projected—he is raising the tax rate on the earnings of people in work, thus breaking the spirit of repeated government promises not to increase income tax. Although he is calling this an increase in employees' National Insurance Contributions, it's a distinction that will elude most of those paying it. Mr Brown believes that because Labour is now trusted to spend this money responsibly, tax increases have lost their political potency. Maybe, maybe not.

The third aspect of Mr Brown's gamble is his refusal to countenance any form of funding for the NHS other than centrally gathered taxation. His claims to have invited debate on the subject of alternative funding models are taken seriously by nobody. Although Mr Brown has some good arguments on his side, he has made it too easy for the Conservatives to portray him as pig-headed and arrogant, especially if, as is all too likely, the NHS gags on the huge quantities of money being stuffed down its throat and wages increase much faster than capacity.

Mr Brown is undaunted. He has convinced himself that doing too little to save the NHS before the next election would be an even bigger gamble for Labour. He had better be right. Otherwise he will end up with an epitaph as sad as those of his illustrious predecessors.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD BRITAIN
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

The budget

Gordon's box

Apr 18th 2002
From The Economist print edition

What did Mr Brown ever do for us?

For (or against) everybody

Get article background

• From April next year, an extra 1% on both employer and employee rates of National Insurance contributions (NICS), and those of the self-employed, applied to all earnings above the lower NICS threshold

• Personal income tax allowance for those under 65 frozen in 2003-04

For businesses

• Supplementary charge of 10% on North Sea oil and gas profits

• Research and development tax credit for large companies set at 25%, worth £400m

• Small companies' corporation-tax rate cut by 1% to 19%

For public services

• NHS spending to rise by 43% in real terms over the five years to 2007-08

• An annual report to parliament by a new NHS auditor

• More cash to go directly to schools

For families, the poor and pensioners

• Consolidated child tax credit for families earning up to £58,000 from next April

• A tax credit for childless couples earning less than £280 per week, and for single people earning less than £200 from next April

• Basic state pension up by £3 per week for single people and £4.80 for couples

For the planet

• Fuel duties frozen

• Road charges for hauliers, to be offset by tax cuts for the UK industry

• Cheaper tax discs for environmentally-friendly cars, lorries and motorbikes

For boozers and smokers

• Duties on beer, wine and spirits frozen

• Packet of 20 cigarettes up by 6p

The big picture

• Growth of 2-2.5% predicted for this year, 3-3.5% in 2003 and 2.5-3% in 2004

• The rate of growth used in projecting the public finances has been raised from 2.25% a year to 2.5% and the Treasury now thinks that the underlying growth rate of the economy is 2.75% a year

• The budget deficit rises from £1 billion in 2001-02 to £11 billion, equivalent to 1.1% of GDP, this year

• For what it's worth, Britain meets the Maastricht criteria for joining the euro.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Coal mining

Bottomless pits

Apr 18th 2002
From The Economist print edition

The coal industry exposes the limits of Labour's newness

WHEN Britain's coal-mining industry was privatised in 1994, the taxpayer might reasonably have assumed that his bill was settled. Not a bit of it. Aside from the huge liabilities owed to miners whose health the industry destroyed (see article), the government's enthusiasm for direct subsidies for this failing industry seems, oddly, to have revived.

The coal industry today is a shadow of its former self. In 1975, there were more than 200,000 miners working at about 200 collieries, producing about 130m tonnes of coal. In 2001, there were 18 deep mines left employing about 8,600 miners who dug out about 17m tonnes. These mines are big loss-makers; UK Coal ran up an operating loss of about £47m on its 13 deep mines in 2001.

This is despite a lot of state aid. When the industry was privatised, the Conservative government twisted the arms of electricity generators to make sure that the mining companies had decent-sized contracts to supply coal to power stations. That allowed RJB Mining (now UK Coal), which bought most of the pits, to pile up big profits in its first few years.

When Labour came to power, it announced a moratorium on the construction of power stations using much cheaper gas. Since the moratorium was lifted, gas prices have risen, reducing the threat to coal, but the 25% fall in coal prices over the past ten years has turned UK Coal's profits into losses. In 2001, the company says its costs were £31.35 per tonne but its sales income was £30.26 per tonne.

Until April 2001, the government insisted that there would be no handouts. Then Stephen Byers, the trade and industry secretary, suddenly announced that aid would, after all, be forthcoming, and the industry got another £140m handout. Cynics noted that it was a couple of months before a general election and that Ellington Colliery in Northumberland, one of the two pits saved from closure by the aid, was a few miles from Mr Byers's North Tyneside constituency.

Most of the money seems to have been wasted. Partly, this is due to bad luck. About £40m was given to Mining Scotland to open a new coal-face at Longannet colliery in Fife. Last month, sudden flooding forced the closure of the pit, the last deep mine in Scotland.

No such excuses can be made for the £40m poured into the Selby coalfield in Yorkshire. Once a showpiece pit producing 12m tonnes a year, it now produces 4.5m tonnes and makes a loss (excluding subsidy) of more than £50m a year. UK Coal says the least uneconomic coal-faces will be exhausted by 2005 and will announce closure plans in the next two months.

John Grogan, Labour MP for Selby, recognises that closure looks inevitable. But in a parliamentary debate on April 16th, he asked for more subsidy to ease the pain that will be caused by the loss of 2,500 jobs, including £60m to keep the pit going for another few years.

Why bother? The long-term prospects for British deep coal-mining do not look good. UK Coal reckons that it will manage to reduce costs by 20% by the end of 2003, but that does not look like nearly enough to get British mines out of trouble: they are only about a third as productive as American pits. Familiar problems stand in the way of further cost-cutting: UK Coal says, for example, that the National Union of Mineworkers, still presided over by Arthur Scargill, adamantly refuses to discuss flexible shift patterns.

Unless the price falls sharply, the generators' demand for British coal is likely to decline. They buy about 80% of British coal, and about 50% of their needs are already met by imports. At the same time, their overall demand for coal is likely to shrink, because the costs of cleaning up their emissions will drive up

costs. ScottishPower, for example, reckons that only four or five of Britain's 18 coal-fired power stations will still be working by 2008.

Brian Wilson, the energy minister, hopes that clean coal technology will solve some of these problems. But that apart, he says: “We are very firm that we are not going to offer up subsidies in order to sustain the life of non-economic entities just for another few months.” Don't bet on it. For all the rhetoric of new Labour, presiding over the death of the deep mine industry is not something Tony Blair will want on his record.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Miners' compensation

The £6 billion bill

Apr 18th 2002
From The Economist print edition

Coal has given rise to the largest-ever personal injury claims case

A LIFETIME or even a few years down the pits left many coal miners with crippling illnesses—lung diseases and vibration white finger, a debilitating numbness of hands caused by using vibrating drilling and cutting equipment. In the late 1990s judges decided that the industry should pay compensation. Under the terms of privatisation, that meant the government had to pay up.

Around 320,000 ex-miners have now registered claims. It is the biggest personal injury claims case in British legal history and, although American asbestos and tobacco injury lawsuits may eventually outstrip it, the biggest case in the world in which cash is already being paid out.

There are so many claims that the government is settling each case directly with solicitors, for it fears that dealing with each claim in the courts would bring the justice system to a halt. So far, the government has paid out £750m and it expects the final bill may be about £6 billion.

That's not all, either. The government is also paying out £350m to help former mining areas recover from pit closures, another £20m to clean up former colliery spoil heaps and £60m a year in pensions to older miners who lost out when pension terms were improved in the mid-1970s. Of course, compared with the bill from the nuclear industry—estimated clean-up cost £42 billion—this looks like peanuts.

You might imagine that the government is getting plaudits from miners for paying out these sums. Not a bit of it; the bureaucracy and delays in making the injury payments mean that they are referred to bitterly in mining areas as the widows' pension.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Juries

Derry's U-turn

Apr 18th 2002
From The Economist print edition

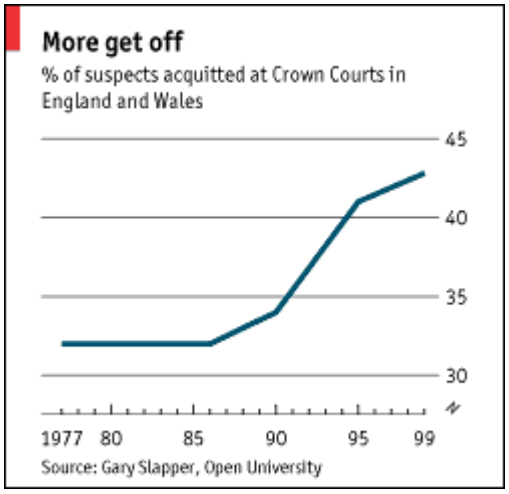
The champions of trial by jury have seen off the government

WHEN you are in a hole, stop digging. The government took this necessary political lesson on board this week, when it signalled that it had abandoned its attempt to restrict the right to a trial by jury.

After two bloody defeats in parliament, the plan, restricting a defendant's right to choose a jury trial for a range of middle-ranking offences ranging from shoplifting to burglary, was obviously all but dead. But how do you get out of a manifesto commitment and disguise an embarrassing U-turn? The method chosen was a characteristically rumbustious interview by the Lord Chancellor, Lord Irvine, in which he announced plans to double the sentencing powers of magistrates from six months to a year.

The Lord Chancellor's statement also signals the government's rejection of the proposals put forward by Lord Justice Auld, in his criminal-justice review, for an intermediate court of a judge and two magistrates to hear middle-ranking cases. This would also have had the effect of reducing the number of jury trials.

Empowering lay magistrates to hear more serious offences is another way of achieving the same end. Roughly two-thirds of the 21,000 Crown Court jury trials each year take place because magistrates decide that their powers are insufficient. Ministers claim that this figure could be reduced by nearly half if magistrates could hand down longer sentences.



That is the theory. But those defendants (more than 400,000 last year) who have the right to choose a jury trial will not be eager to entrust their fate to a lay magistrate with increased sentencing powers. They will know that acquittal rates in the Crown Court have sharply risen over the past decade, at least partly because of the reluctance of jurors to believe police evidence (see chart).

The Auld review identified “over-charging” as another reason why many defendants insist on a jury trial. They believe they have a better chance of pleading guilty to less serious charges once the indictment has been reviewed by the Crown Prosecution Service (CPS) in the run-up to a trial. Many defendants go even further, changing their plea to guilty only on the day of the trial. These so-called “cracked trials”, which cost more than £40m a year, are a huge waste of time for police, witnesses and victims.

To offset these pressures, the government will have to come up with big incentives to persuade defendants to have their cases heard in the lower courts. They might, for example, be given an indication of the sort of sentence they would get if they pleaded guilty before the magistrates. A more formal system of plea-bargaining may also be proposed in a criminal-justice White Paper later this summer. This is likely to involve shorter sentences on a graduated scale to encourage earlier pleas.

None of this will work, however, if Crown Court procedures are not improved. Restoring public confidence in police evidence will not be easy. Many cases fail because of reluctant witnesses and poor preparation by the CPS. The Auld proposals to make juries more representative and more efficient should help. But these measures will take time. In criminal justice, there are no easy solutions.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Public sculpture

Getting it up

Apr 18th 2002
From The Economist print edition

Public art is no longer just for nobs and warlords

PITY poor King William IV. After his death in 1837 a plinth in Trafalgar Square was reserved for a commemorative statue of him. He didn't leave enough money to pay for it, though, and the space remained empty until 1999. By contrast, a noisy campaign for a statue of the Queen Mother to be thrown up post-haste was launched within a week of her death. But then, these are good times for public sculpture in Britain. Countless public artworks were commissioned for the millennium. Successes, such as Antony Gormley's huge (and hugely popular) “The Angel of the North”, and the ongoing wrangle over who or what should occupy the spare plinth in Trafalgar Square, have helped to raise sculpture's profile.

Two factors are driving this trend. One is new sources of money. Public finance is being supplemented by the National Lottery and by private companies. The Percent for Art scheme—an initiative under which property developers set aside 1% of their budget for artworks—has played a small part. And some enlightened developers are employing an artist at the same time as their architect. Graham MacDonald, director of MacDonald Egan, which is redeveloping the Old Seager Distillery in Deptford, south-east London, sees his relationship with the artists he has commissioned as mutually beneficial. Art, he says, “adds value”.

Secondly, local authorities are regarding art as a tool for regeneration, rather than as an end in itself. “Public and urban art has taken on a new role in Britain since the end of the second world war,” says Colette Bailey, managing director of the Royal Society of British Sculptors. It is no longer only about “honouring past heroes and heroines”; it can boost confidence in an area and help to attract in investment.

Accordingly, says Jo Darke, director of the Public Monuments and Sculpture Association (PMSA), in recent decades sculpture has been used more and more to embody regional history. “As it's ‘art' rather than ‘commemoration', it can be far less formulaic.” Artists are using new techniques and materials. Sometimes these are specifically local, such as the steel in “The Angel of the North”. Sometimes they are simply novel, such as the inscribed stone oak leaves by Alain Ayres, set into the ground as part of a sculpture trail along the rivers Ure and Burn in Yorkshire, or the neon in Ron Haselden's sculpture “Bird-life”, made for the Birmingham convention centre in 1991. Most dazzling is Anish Kapoor's self-explanatory “Sky Mirror”, erected in Nottingham in 2001.

Just how big the sculptural boom has been, though, is unclear. Ian Leith, chairman of the PMSA's National Recording Project, estimates that in the late 18th century Britain's public sculptures would have numbered in the hundreds. Today, he says, there must be at least 15,000. With a lottery grant, the project has created a national inventory of public art. But Mr Leith sounds a cautionary note: some of the work commissioned in recent years has proved surprisingly short-lived. In particular, he cites Britain's new towns, much of whose public sculpture, proudly unveiled in the post-war years, is now in a state of grave disrepair, or has vanished. “Public sculpture,” Mr Leith notes dryly, “is more mobile than you might think.”

A Queen Mother with an automatically waving arm, then? Perhaps, Ms Darke agrees. “But what are they going to do about that hat?”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD BRITAIN
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Golf

Crouching Tiger

Apr 18th 2002 | HERTFORDSHIRE
From The Economist print edition

After years of expansion, the golf business finds itself in the rough

MOST sports—involving, as they do, grown men and women kicking and throwing balls or each other—are basically preposterous. Golf is especially preposterous, since it consumes so much time and land (and therefore money). But because of these expenses, the popularity of golf says something about a country's lifestyle and aspirations. In Britain, golf courses occupy more land than ever; but Britons are not spending as much time and money on them as developers had hoped.

As Mark Twain would see it, in the early 1990s, more and more good walks were spoiled. New golf courses were built across Britain, and, indeed, much of the rest of the world—in response, says, Colin Hegarty, of the Golf Research Group, to the ravenous golfing appetite aroused by television. The boom in the number of players in Britain in the 1980s was also driven, Mr Hegarty says, by the success of the country's golf idols in major tournaments. Most of the new British courses were commercial ventures, which compete both with the council-owned municipal courses (designed to bring golf to the masses) and the old-fashioned, members-only clubs (designed to keep them out).

At the top end, the new commercial market looks secure. At Brocket Hall in Hertfordshire, facilities include an 18th-century manor house, a posh restaurant, and two courses; on one of them players take a ferry to the last green. New members currently have to lay out £14,000 ($20,000); their stake can be sold if they leave (only to the right sort, of course). The manager isn't sweating.

But, with total numbers flatlining, there are not enough new golfers to fill all the new fairways. Some less swanky developments, often the work of entrepreneurial farmers, have gone bust, to be snapped up by multinationals (though they too are feeling the pinch: Clubhaus, a listed company which owns courses in four countries, including 13 in Britain, is threatened by insolvency after writing-down its assets). The number of rounds played at municipal courses has declined dramatically. Not far from Brocket Hall, at the less rarefied Stevenage municipal course (green fees: £16 at the weekend), the brewery that once ran the club-house has pulled out—though after several years of decline, says the manager, there has recently been an upturn.

The supply of new members to the older clubs has also begun to dry up. At a typical private members club nearby, the waiting list is shrinking. Other traditional clubs in the area have scrapped their joining fee altogether, just as, at many new ones, they are falling or disappearing.

Golf's problems are due partly to the sport's migration from terrestrial to satellite television: the audiences are smaller. And while Tiger Woods is photogenic, he is less of a draw for Britons than the home-grown champions of yore. Other explanations cited include the laziness of the young, the growing enthusiasm of the middle-aged for DIY and gardening, and low-cost airlines, which offer cheap access to Mediterranean courses.

Longer-term factors also explain why golf is becoming one of the many sports Britain has invented, exported, and now loses at. Block leisure time is sparse in a country that works such long hours. Men, who make up an especially high proportion of British golfers, are becoming less inclined (or allowed) to spend time away from their families.

And golf may not be quite the aspirational pursuit it used to be. Wray Vamplew, an expert on the history of golf at the University of Stirling, says that it was once the preserve of the upper-middle classes, who established their private clubs around the turn of the last century when land was cheap. In the yuppie boom of the 1980s, golf was one form of conspicuous consumption that appealed to the upwardly mobile. Now they are finding other ways to tell the world and themselves that they have arrived.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

DJs

Turning the tables

Apr 18th 2002
From The Economist print edition

Who needs manufacturing? At least one area of British exports is flourishing

Oakenfold's invisible earnings

"GOD is a DJ," announced the title of a 1998 single. More specifically, to an increasing number of dance fans he may be a British DJ. One, a former chef from London called Paul Oakenfold, has had a particularly good couple of years. In 2000, he was anointed the world's most successful DJ by the "Guinness Book of Records". Last November, he became the first DJ to make the *Sunday Times*'s list of Britain's top earners; the paper put his income at £1.5m ($2.2m). A few months earlier, he was enrolled as the first electronic artist in the Las Vegas Hard Rock Hall of Fame.

That last gong may be the most significant. For more than a decade, Britain's DJs have been turning up in the most unlikely places. Mr Oakenfold has spun discs in Beijing and Bogota, Moscow and Manila. His former colleague Carl Cox is the only DJ to have played in a new millennium twice, in Sydney and Honolulu. Lesley Wright, the editor of DJ magazine, says the majority of today's top international DJs come from Britain. But until recently, none had cracked the North American market.The tables have now turned. First, in 2000, DJ Fatboy Slim became the best-selling British solo artist in the United States. Then Mr Oakenfold began to play most of his dates there. And last month, fellow Britons Sasha and John Digweed set off on a tour of 31 American cities.

Americans might see an irony in their success. Electronic dance music originated in the United States: house was born in Chicago, techno in Detroit. But in America it has remained largely underground. In Britain, where the charts are more accessible to small record labels, it went mainstream in the late 80s. Pop stars, such as the former Culture Club singer Boy George, and Norman Cook, the former Housemartins guitarist now known as Fatboy Slim, restyled themselves as DJs. In turn, several DJs have themselves become successful recording artists.

Ms Wright believes that Britain is still the world centre of dance music. That, though, comes at a cost. Thomas Foley, the managing director of React Music, a record company, thinks the British market is now over-commercialised. A few big DJs, he says, dominate the market; they are demanding ever-higher fees; many fans are priced out of clubs.

React specialises in DJ mix albums; Mr Foley says they have proved highly lucrative in the past, but these days few turn a profit from British sales alone. That explains why British DJs are keen to win themselves an international reputation. For the star names, though, the future looks bright. Many supplement their gig fees and royalties with production or re-mixing work for bestselling bands. Carl Cox runs a successful management company; Paul Oakenfold has set up his own record label. Those who think all dance music sounds the same may be in for a long haul.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Bagehot

In praise of older men

Apr 18th 2002
From The Economist print edition

Michael Howard, the shadow chancellor, is too old to aim at power. Oddly, that makes him more dangerous

Get article background

FOR the past five years Gordon Brown has had it easy. Thanks to the sound economic fundamentals he inherited, combined with his own natural prudence and powerful intellectual grip, he has easily steamrollered successive Tory shadow chancellors. Their personal failings haven't helped. Francis Maude, though bright and diligent, lost his parliamentary nerve and never regained it. Michael Portillo, though potentially formidable, returned to active politics after losing his seat in 1997 with the fire in his belly evidently extinguished, a fact confirmed by his strangely querulous bid for the leadership. When, after a second traumatic election defeat, Iain Duncan Smith gave the job to Michael Howard, the appointment looked like a measure of Tory bankruptcy, in terms of both talent and morale.

In Britain's political youthocracy—all three party leaders are in their 40s—the 60-year-old Mr Howard was the personification of yesterday's man: one of the most-disliked members of a government that even loyal Tories try to expunge from their collective memory. Lucky Gordon; poor old Tories. But Mr Howard has surprised. Perhaps because he is not striving for position, he lacks the desperation of younger colleagues. That gives him a considered calm far more impressive than the brutal brilliance of old. The man who once did so much to coarsen political debate has developed a nice line in feline subtlety.

As home secretary in the last Conservative government, Mr Howard willingly became the stuff of liberal nightmares. He demanded ever-tougher sentences and threatened ancient freedoms, such as the right of defendants to remain silent. Even a reputation for competence was undermined in 1996 after an official report into a prison break-out put the blame on a system riddled with deficiencies. Mr Howard forced his director of prisons, Derek Lewis, to resign, while declining to accept much in the way of responsibility himself, famously refusing to answer a question put 14 times by a television interviewer suggesting he had made Mr Lewis a scapegoat. Mr Howard's chances of becoming leader of his party were effectively torpedoed when the junior Home Office minister at the time, Ann Widdecombe, having developed an improbable crush on Mr Lewis, described her former boss as having “something of the night” about him. Unfortunately for Mr Howard, who is charming in person but somewhat saturnine in public, too many people could see what Miss Widdecombe was getting at.

To his credit, Mr Howard, the son of a Romanian Jewish shopkeeper, was not over-impressed by William Hague's xenophobic skinhead-tendency Conservatism. He retired to the backbenches in 1999 after being attacked from within his own party over his support, as shadow foreign secretary, for what he called the “just war” in Kosovo. After the last election, most people who bothered to think about him assumed that Mr Howard, with a string of non-executive directorships to keep him busy and in funds, was out of the game for good. But when the call came from Mr Duncan Smith, whom he had belatedly backed for the leadership against his old Cambridge chum, Ken Clarke, Mr Howard agreed.

Mr Howard says that it was the despair of his constituents about the state of the health service that persuaded him to return to active duty—he claims to have received from them twice as many complaints in the last couple of years as in the whole period from 1983, when he entered parliament, to 1997, when the Tories left office. That does not convince. More plausibly, he scents blood. He thinks that the government is much weaker than its massive parliamentary majority makes it seem; its support he says “is like the Rio Grande—long and wide, but shallow”. The government's uncertainty about reforming the public services stems, he argues, from the fact that it has no “framework of principle” from which to draw.

The pussycat's claws

Until the public has concluded that simply pumping large amounts of money into an unreformed NHS doesn't work, Mr Howard reckons there is little point in offering a detailed alternative. Most Tories reluctantly accept that they have no choice but to be patient: Mr Hague tried frightening people, and it didn't work. The party is now focusing on being seen to care about the weak and vulnerable. Mr Howard is not entirely comfortable with this new emphasis. He knows that he will never be cuddly. So he is trying to gain a reputation for talking sense.

To that end, he has embarked upon a series of thoughtful speeches exploring what he calls “the limits of consensus” in economic policy. So far, he has given more or less unstinting praise to Mr Brown's conduct of monetary policy, in particular his decision to make the Bank of England responsible for setting interest rates. He has also endorsed the chancellor's five principles of fiscal management—transparency, stability, responsibility, fairness and efficiency—as well as the two rules that Mr Brown has laid down to inform public spending decisions: that the government should borrow only to finance net capital spending and that over the economic cycle the ratio of public sector debt to GDP should not exceed 40%.

This may all seem perfectly obvious, but the adversarial nature of British politics makes the concession a radical one. By acknowledging the success of Mr Brown's monetary policy, Mr Howard makes a telling contrast with the chancellor's regrettable passions for obfuscation, complexity and counter-productive microeconomic tinkering. His compliments are also barbed: if our current monetary arrangements work so well, why risk everything by joining Mr Blair's beloved euro and succumbing to the untested and inferior monetary regime that comes with it? With a velvet touch and a flash of the claws, Mr Howard has done what no other Tory has so far achieved in opposition: he has made himself dangerous.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

What ails Japan?

Apr 18th 2002
From The Economist print edition

Gettyone

Twelve years in the economic doldrums: what does that say about the political system? It's almost impossible to reform, argues John Grimond

IMAGINE a country where the streets are clean, drugs cause few problems and muggings are almost unheard of. Imagine further that the trains run on time, most people are well dressed and many—at least to judge by the giggling girls shopping in the capital's swankiest area—are able to afford the most expensive trifles that money can buy. In such a prosperous country, life would be long, taxes modest and unemployment certainly lower than in Europe, probably even than in America. People would be polite, thrifty and unbelligerent. Rather, they would be munificent givers of foreign aid, vigorous investors abroad and profuse lenders. Such a country is Japan, and to many it might seem paradise. Yet open a newspaper and you will see that this is a country in crisis. How so?

The newspaper headlines are likely to suggest that the problem is the banks, which are undeniably in trouble. Japan has too many of them, they are chronically weak and they are burdened by duff loans. The government admits these loans stand at ¥37 trillion, about 7% of GDP, but some say the true figure is nearer ¥70 trillion-80 trillion, and the Tokyo branch of Goldman Sachs, an investment bank, takes an even gloomier view, putting the debts of all companies either bust or potentially bust at more like ¥170 trillion (in 2000, since when conditions have grown worse). Unfortunately, these non-performing loans cannot be treated like recalcitrant creatures in a circus act; they cannot simply be written off or replaced by performing substitutes, because Japan is going through a nasty bout of both recession and deflation, whose effect on the banks is to create new bad loans out of yesterday's good ones.

Behind the banks' troubles lie those of the companies they lend to. As a broad generalisation, it can be said that few companies outside the plain that extends from Tokyo to Osaka are internationally competitive, and some—notably in retailing and construction—are in particularly frail health. Property companies also require intensive care. Since 1991, commercial property prices have dropped by an average of 84% in Japan's six biggest cities.

Share prices, too, have been skidding. In February, the Nikkei 225, the most commonly used share-price index, dropped below the Dow Jones Industrial for the first time since 1957, though in the 1980s it had briefly stood at 14 times the Dow. By chance, the Nikkei had been almost equal with the Dow after the second world war. Though it rallied in February and March, at its February 1st level, the Nikkei had fallen by three-quarters since its zenith in 1989.

The bad news does not stop there. Unemployment stands at 5.3%, just below its recent post-war record of 5.6%—and the official figure, because it excludes those too discouraged to register, understates the true picture. Electronics giants such as Fujitsu, Hitachi and Toshiba have been laying off workers in droves. Supermarkets, such as the huge Mycal chain which went bust last September and even bigger Daiei which was bailed out in January, are shedding jobs all the time, as are building companies such as Aoki and Sato Kogyo, which collapsed in December and February respectively. The number of bankruptcies last year had been surpassed only once since the war, in 1984.

With America also in recession, Japan's trade surplus has plunged too (by 40% in 2001, in dollar terms). The economy is shrinking—the Bank of Japan forecasts a contraction of 0.9-1.2% this year—and, though many hope that America's recovery will start to help Japan at the end of this year, few are optimistic about the future.

The curse of price destruction

Many companies—over 2,000 of Japan's 3,700 listed businesses—are not investing but paying down their debts. Why, it may be asked, when interest rates are virtually zero? The answer is that they must clean up their balance-sheets, thrown into disarray by the fall in asset prices. Falling prices play merry hell with normal business practices, and prices are still decreasing in Japan—consumer prices by about 1% a year, as they have done since 1999 (or 1995, if your measure is the broad GDP deflator). For consumers, deflation is a delight: money grows more valuable as it rests in the purse or pocket-book. But that encourages consumers to save, not spend. For those who have borrowed, deflation is a nightmare: the burden of the debt becomes heavier simply with the passage of time. That helps to explain companies' desire to clean up their balance-sheets—and the awful problems of their creditors, the banks.

Suddenly, the idyllic, safe and prosperous Japan looks rather less attractive. Can this really be the country that little more than ten years ago was set to conquer the world? It was certainly set to buy it. In the late 1980s, after all, Japan invested $650 billion abroad, nearly half of it in the United States, where such icons as Columbia studios, Pebble Beach golf course and Rockefeller Centre in New York fell into Japanese hands. Americans had already become used to the idea of “Japan as Number One”, as the title of Ezra Vogel's best-selling book put it in 1979. By the late 1980s, with companies such as Sony, Honda, Toyota and Toshiba sweeping all before them, Japan Inc truly seemed invincible.

That this was an illusion had become clear by the end of the decade, but what has been happening since? The short answer is that a succession of governments, led by 11 prime ministers since the start of 1989, has been trying to clear up after what turned out to have been a gigantic party in the 1980s. They have tried, or at least promised, more or less everything—stimulus after stimulus (the fiscal packages amounted to a grand total of ¥120 trillion between 1992 and 2000), constant restructuring, bail-outs and bankruptcies.

Now the choices are limited. If the government boosts demand with yet more spending, or perhaps a tax cut, the national debt, which already stands at over 130% of GDP, will rise higher than Mount Fuji. If it bails out the banks, it will squander more money, probably to no avail: less than three years have passed since ¥7.5 trillion was thrown at 15 under-capitalised banks, yet the duff-loan problem persists. Interest rates can hardly be cut further from their current 0.001%. And, though the yen fell 13% against the dollar last year, any depreciation big enough to make a significant difference to exporters would probably infuriate Japan's trading partners and competitors, causing a huge row with America and setting off other devaluations in Asia.

The options boil down to a much looser monetary policy, some sort of nationalisation of the banks, or crossing fingers and hoping that Japan can continue to muddle through. Any easing of monetary policy looks improbable as long as 77-year-old Masaru Hayami remains governor of the Bank of Japan. His main concern is inflation—hence his insistence that structural reform must precede any other action. Moreover, the bank did allow an increase in the monetary base last year—of 16%—without any appreciable effect on money supply. As for nationalisation, the mere talk of it puts everyone in a spin for fear of setting off a financial crisis. The collapse of a regional bank in 1997, causing depositors to lose everything, is a painful memory for politicians, as is the failure of a big broker, Yamaichi Securities, that year, and the ensuing run on an associated savings bank.

Disaster has been predicted for
Japan's banks for years, and has yet

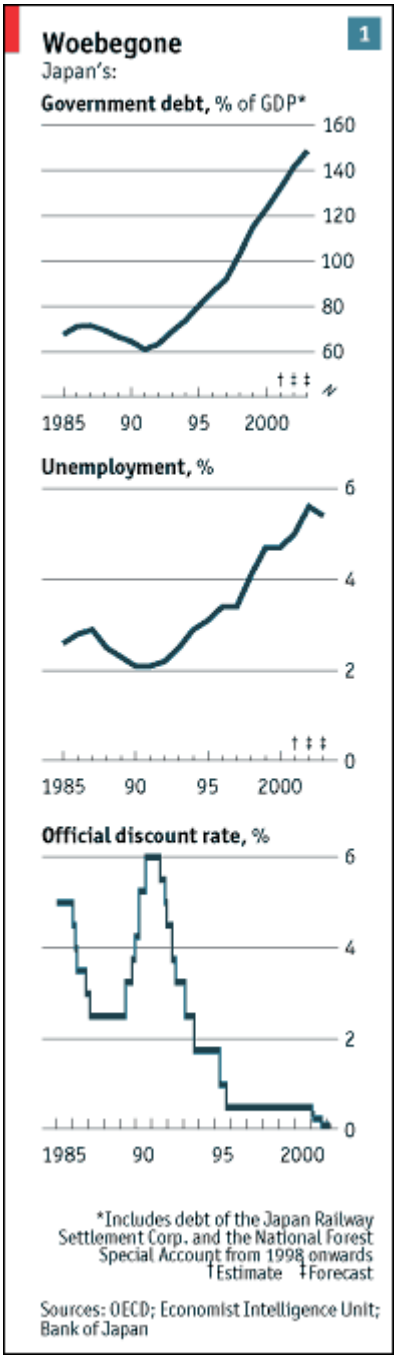
to happen. That does not mean it never will, or that it is inevitable. But there is plainly a big risk, and the consequences would be severe. Japan is the world's second-biggest economy. Its fortunes are intimately tied in not just with Asia's but with America's and the rest of the world's. Exactly how convulsive a Japanese banking crisis would be would depend on the gravity of the country's current situation, which no one is really sure about. Everyone assumes that the 30 to 50 heavily indebted big companies, mostly in property and construction, would be inevitable casualties. If Goldman Sachs is right, though, almost all industries have their share of seriously rocky companies, whose collapse would be felt much more widely, both in Japan and internationally.

Exchange rates
Yen, April 9th 2002

$1=	131.5	€1=	115.2
10 yuan=	158.9	100 won=	9.89

In the face of such a possible catastrophe, it might be thought that some corrective action would be taken. Junichiro Koizumi, who has been prime minister for a year, came to power promising reform. But even Mr Koizumi's greatest admirers admit the task may be too great for him.

All this prompts some questions. First, since Japan has lurched from recession to recession—the current one is the fourth in ten years—and since the 1990s have been called “the lost decade” for several years now, why has concerted action not been taken before? And, second, will Mr Koizumi succeed where others have failed, or, perish the thought, is the political system that delivered Japan's economic miracle with such panache after the war now incapable of seeing the economy through to its new, mature stage? These are the questions this survey will seek to answer.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

How did it get into this mess?

Apr 18th 2002
From The Economist print edition

Japan Inc heads for Chapter 11

Gettyone

Now they point down

IF JAPANESE politicians have shied away from trying to sort out the country's problems, that may be partly because it is so difficult to identify where one problem ends and the next begins. Anyone looking for neat separations in Japan will search in vain. Instead, academics usually refer to an “iron triangle” comprising big business, the long-ruling Liberal Democratic Party (LDP) and the bureaucracy, whose interlocking relations form a nexus of power. And as with the power-wielders, so with the activities they control: none can be said to be discretely economic, or political, or bureaucratic; they are usually all three. So if you wonder how Japan got into its current mess, it is hard to know where to begin. But a start can be made by looking at industry, business and the banks.

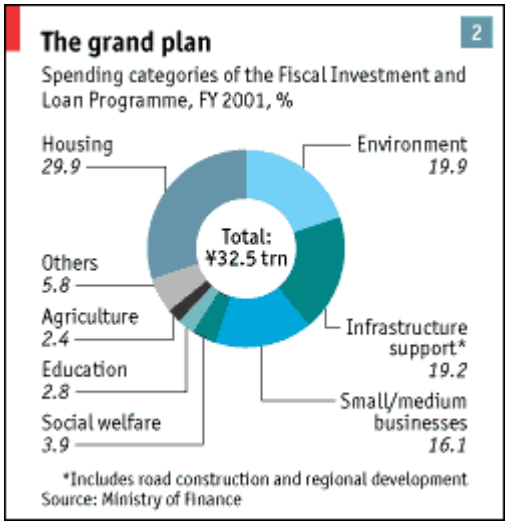
Japan's banks are not notably inefficient by international standards, but they have plainly engaged in some foolish lending. Why? One reason is that, after the Plaza currency accord in 1985 led to an appreciation of the yen, the Ministry of Finance opened the monetary throttle and lowered interest rates. That set off a borrowing binge, with much of the money flowing into property. Before long, prices—which were set not by the market but by indexes drawn up by bureaucrats to suit their own purposes—went crazy. The gardens of the Imperial Palace in central Tokyo were said to be theoretically worth as much as the entire state of California, or all of Canada. Borrowing became easy, since land was used as collateral for almost all bank loans. Share prices shot up; the Nikkei doubled between 1987 and 1989. And because Japanese banks and businesses have long had huge holdings in each other, the popping of the speculative bubble brought both of them crashing down together.

The banks had also been lending at the behest of bureaucrats—few of whom are trained economists—to companies they happened to like. This followed a “long-standing social practice”, as Noriko Hama, of Mitsubishi Research Institute puts it, whereby the banks were treated as quasi-public-sector organisations to be used to get Japan's post-war business back on its feet. Next came the country's spectacular macroeconomic growth, fostered to some degree by the system of cross-shareholdings. But as the economy grew more complex, the collaborative relations between banks and businesses turned in the early 1980s to collusion and even conspiracy. As interest rates fell, the banks began to lend to poorly managed land developers and even gangsters. Then it all went wrong.

The politicians were hardly blameless in all this. They pumped money—taxpayers' money—into companies that were so inefficient that they should have been allowed to go bust. Their motives were not all bad. In a society where work is all, especially for men, and welfare benefits limited, the politicians were desperate to avoid unemployment. They therefore used some industries, notably construction, to soak up labour laid off by other industries. Construction was also used as an instrument of regional aid. By building roads, bridges, airports, tunnels, no matter how unnecessary, they could direct money and jobs to the many parts of the country with no efficient companies.

The construction companies showed their appreciation by giving generously to their local member of the Diet (parliament) and to the “road tribe” who sat on the LDP's policymaking committees in Tokyo. Some of the money was given openly, much more probably rubbed off through rigged contracts. In any event, even today the building budget is gigantic: construction-related spending has comfortably exceeded the budget of the American Defence Department in recent years, and about 10% of Japan's workforce,

some 6m people, still derive their jobs from it, far more than in other rich countries. Unsupported, about half the industry might collapse, throwing millions out of work.



Not all of Japan's industry is inefficient, though. The parts that have been exposed to foreign competition, which drove the country's post-war GNPism, are proven world-beaters. But practically all of industry has, by tradition, been to some degree influenced or controlled by non-commercial actors—if not politicians, then bureaucrats. This “administrative guidance” was given partly informally, partly through bureaucratic control of the access to capital, partly through regulation. In a heavily regulated state, the bureaucrats could and did allow the *keiretsu*—the bank-centred conglomerates that dominate the economy—to make arrangements to their own advantage. The bureaucrats' main concern was to ensure a satisfactory flow of corporation tax, and during the good years it was not difficult for them to do this by fixing the pre-tax profits of the banks.

The perfect arrangement

For years it all worked well. With their flows of capital assured, Japanese companies were able to take the long view. With the help of lifetime employment, pliant enterprise unions and a seniority system whereby labour came cheap at the outset in return for guaranteed rewards at the end, companies could invest in research and development. Productivity and profits soared, and everyone grew rich.

But the bureaucrats guiding this venture were not infallible. In particular, they chose to operate the financial and banking system as though Japan were an economy short of savings, when in reality centuries of uncertainty about the future—always likely to be punctuated by earthquakes, typhoons, tsunami and volcanic eruptions—have made the Japanese among the most thrifty of peoples. Unfortunately, their thrift now contributes to the lack of demand, which keeps the economy mired in recession. Unfortunately, too, though they are the biggest exporters of capital in the world, their savings swell the coffers of the banks, not to mention some other formidable institutions at home, thus complicating the bad-debt problem.

At least until next March, the bulk of these savings are guaranteed by the government. That is one reason why those in authority have no wish to see too much carnage among the banks. Yet they also know that any bail-out of the banks will be intensely unpopular with the voters. Unless their own money is at risk, those voters will surely see any rescue as a lifeline for the incompetent friends of collusive politicians and bureaucrats.

But not all savings in Japan go into the banks. The most trusted institution, and certainly the largest, is the post office, whose assets stand at ¥250 trillion, excluding the postal life insurance system's ¥123 trillion. These two sources of funds, plus the social-security contributions gathered through payroll taxes, feed the Fiscal Investment and Loan Programme, the FILP. Through this programme, the Ministry of Finance lends money at subsidised rates to a variety of institutions and projects. In other words, money is distributed according to a grand plan worked out in the ministries and financed by the banks and the postal system: no wonder aspects of Japan are so often likened to the Soviet Union.

Since the bureaucrats have always lent on the basis of equality of access to cheap funds, the successful have not been rewarded and the unsuccessful punished, as economic logic would demand. In the days of high growth, that did not matter. The lending then was mostly to industrial borrowers and the system seemed to work all right, or at least its shortcomings could be hidden. Nowadays, though, the biggest borrower is the Housing Loan Corporation, which provides low-cost mortgages—undercutting private-sector competitors (just as the postal life-insurance system undercuts its private competitors) and thus contributing to the country's current economic mess. All told, the government has been providing over ¥5 trillion a year to keep the Housing Loan Corporation and other “special corporations” afloat.

Mr Koizumi wants to change all this. But why did no one try in the 1990s? The answer lies in the mysterious world encompassed by Nagatacho, Kasumigaseki and Toranomon, the homes of, respectively, the Diet, the main ministries and the special corporations.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Corruption, construction, conservatism

Apr 18th 2002
From The Economist print edition

The bureaucrats and politicians have much to answer for

Bridgeman Art Library

Even mightier armed with pens

THE bizarre FILP system did not in fact get through the 1990s wholly free from assault. Ryutaro Hashimoto, prime minister from 1996 to 1998, made a start on tackling it when he was in reform-minded mood. But look at what he was up against.

First, the bureaucrats. The people who administer the system, the heirs of those who devised it, stand to gain enormously from its perpetuation. One way they do so is through *amakudari* (descent from heaven), the practice whereby top bureaucrats on retirement land in comfortable sinecures in the industries they used to be responsible for. That is bad enough: it leads to an utterly improper relationship between the civil servants and the very people who, in a system less collusive and secretive than Japan's, they would be monitoring. But the sinecures they fill on retirement are not only in private industry, they are also in the special corporations such as the one for housing (subsidy in 2000 ¥443 billion) and the one for highways (¥306 billion).

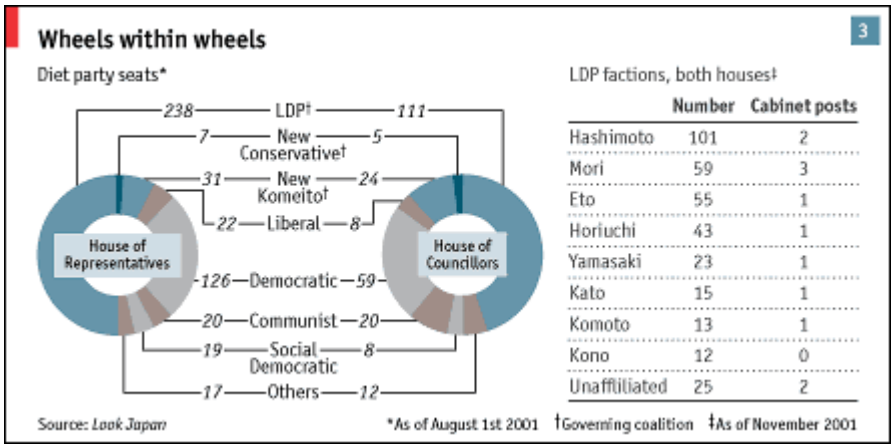
When they come down from heaven, these bureaucrats land on their feet. Retiring in their 50s, they can hope to spend up to 30 years doing the rounds among the special corporations, and over ten years the senior ones may earn $1m or so in lump-sum fees alone, half of it tax-free. They can hardly be expected to welcome an end to such post-celestial rewards.

And bureaucrats are creatures of extraordinary power in Japan. Todays' elite are the functional descendants of the samurai, the warrior class that provided the administration in feudal Japan. After the Meiji restoration in 1868, these bureaucrats became the servants of the emperor, whose lineage supposedly came from the deities. To the prestige this gave them, the necessities of the second world war added power, notably through “the 1940 system” which put them in charge of the entire industrial economy. After the war that power grew, largely thanks to the desire of the victorious Americans to rule indirectly through the bureaucracy rather than through a political elite. Soon the latter-day samurai were involved in every aspect of control, from micromanagement of the economy to writing the laws of the land. To this day, says Stephen Church of Analytica Japan, a consultancy, “It is widely...believed to be true that the civil-servant vice-ministers meet on Mondays and Thursdays to decide the agenda to be rubber-stamped by the cabinet on Tuesdays and Fridays.”

Mr Church sees three main influences on the Japanese bureaucracy: Yamato (the state that started to emerge about 1,700 years ago, introducing a tradition of obfuscation of responsibility), China (where flourished a mandarinate of superior persons) and Prussia (with its rule-bound civil service). Masao Miyamoto, a psychiatrist and former bureaucrat himself, saw in the modern bureaucracy a microcosm of Japanese society. In “The Straitjacket Society” (1994), he enumerated its main characteristics, including control of the market through permits and regulations (hence hostility to deregulation and opening up); giving priority to producers over consumers (to promote Japan Inc); the philosophy of *messhi hoko*, self-sacrifice for the sake of the group (ie, Japan Inc, once again); and the promotion of conformity, especially through the education system (to reduce dissent). “What distinguishes Japan's ‘totalitarianism',” he wrote, “is that there is no observable Big Brother figure. It is the structure itself that functions as Big brother, [which] makes it almost impossible to change the system.”

Serving the people

With a caste of people exercising such enormous and deep-rooted power, Japan might be considered an oligarchy or an autocracy. It is of course a democracy, and not just in form. Indeed, in at least one respect, it is highly democratic: that is, that elected politicians dutifully serve the people, or, to be more exact, their constituents (and, no doubt, themselves). By tradition at least, they do not engage in forming policy, nor do they really have any sense of the common good. In the Japanese system, politicians chiefly act as mediators between the bureaucrats and the voters, a role they perform mainly by delivering goodies back to their districts.



The main vehicle for doing this is the LDP, which has ruled, for all but a few months in 1993-94, since 1955. This makes Japan a one-party state in many respects, with some similarities to the Soviet Union (central planning, enforced conformity), more to pre-2000 Mexico (reformers and “dinosaurs” within the ruling party) and even more to pre-1990s Italy (constant changes of prime minister without any change of party control, manipulation of power from behind the scenes, an opaque faction system within the ruling party). To these characteristics could be added two more that are common to all one-party states: corruption and conservatism.

In such a system, huge quantities of money flow between government and voters. Japanese politicians are expected, for instance, to be lavish givers to their constituents when they marry, but largesse distributed by public works through politicians' *koenkai*, their personal support organisations, plays an even bigger part. This is where the construction industry comes in again. The country is littered with airports that no one uses, bridges that carry no traffic and roads that go nowhere. To give just one example, the Seto inland sea is already served by three bridges connecting the islands of Shikoku and Honshu, yet vested interests have been agitating for two more. Not for nothing is Japan known as the construction state.

Benefiting from all this are politicians not just in Tokyo but in local governments too, as well as the building companies and, through them, at least some ordinary people. The cost is vast. Much of the money goes on projects that serve no useful purpose. Much rubs off corruptly (and brazenly: one boondoggle involving a bridge across Tokyo Bay was so huge that the politician behind it openly said he would be content with 2% rather than the usual 3%). And meanwhile the government's debt heads ever higher.

It is not hard to see why the LDP is so resistant to change. Its two main purposes—rent-seeking and self-perpetuation through electoral success—have both flourished under the status quo. Almost every interest-group imaginable is represented within its ranks, and it takes care to look after them. Farmers are treated especially well, mainly through protection of their markets. And, thanks to a gerrymandered electoral system, their votes count disproportionately in the Diet.

How does the LDP get away with it? Partly at least thanks to a supine judiciary, which is always loth to defy parliament—accepting in one instance an electoral arrangement whereby five urban votes were considered equal to a single rural one. The law, it should be noted, does not count for much in Japan. Although, or perhaps because, the country's top bureaucrats have typically graduated from Tokyo University's law department, the number of lawyers is controlled by the government. At present it stands at just over 18,000. The United States, with a population a little over double Japan's, has 891,000.

A system in which power lies in an amorphous swamp of bureaucracy and ruling party, each plumbed into the private sector, is unlikely to welcome scrutiny, and indeed secrecy is one of its notable features. Even more serious perhaps is the general lack of any sense of responsibility or accountability. Who, for

instance, might take the blame for the problems of the banks, or the money squandered by the special corporations? People sometimes bow out—literally—when caught in some egregious malpractice; they may even commit suicide, if honour is considered at stake. But among bureaucrats at least, honour never seems to be at stake where the victims are mere taxpayers.

Never rock the boat

Complaisant attitudes are fortified by compliant institutions. To some extent this is a consequence of the post-war constitution, which was partly written by the Americans to ensure that Japan stayed politically and militarily weak. It has never been amended. In any event, most ministries are adept at serving their clients, and not much else. Some, it is true, have done much better than that: during its heyday, the Ministry of International Trade and Industry was a master of picking and backing winners. But that was when things were going well. When things go badly, the ministries neither propel forward any individual to take charge nor do they provide the institutional impetus needed for corrective action. Japan has no equivalent to the British Treasury's public-spending review, for instance, nor does it have any institution like America's Congressional Budget Office or its General Accounting Office. Diet members, each with only three staffers paid for by the government, are particularly poorly served. They huddle in tiny offices, looking after constituents and interest-groups and deferring to more senior figures on weightier matters.

At the apex is the prime minister. In the past ten years prime ministers have come and gone every year or so, grey old men, most of them, frequently controlled by faction leaders behind the scenes and unable anyway to do much before some scandal or failure unseated them. The factions they serve may have some modest ideological flavour, but most are vehicles for distributing party and ministerial posts; they seldom promote reform. Mr Koizumi's predecessor, Yoshiro Mori, hardly promoted anything. On some issues, the dominant Hashimoto faction—named after Ryutaro Hashimoto, but in fact the faction of Kakuei Tanaka, who came to power in 1972—simply failed to consult him at all.

The civil servants, however clever, are neither trained nor disposed to provide the prime minister with a skilful diagnosis when things go awry. They can and do offer proposals to be endorsed with little change by the LDP's policy committees, but conservatism, self-interest and the lack of accountability usually ensure that these fall far short of what is needed. In short, the status quo is a recipe for failure.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

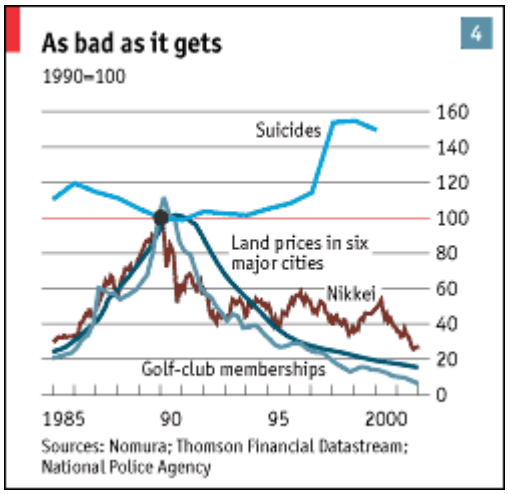
Consensus and contraction

Apr 18th 2002
From The Economist print edition

Social conventions and demography add to the sclerosis

AS IF the powers-that-be within the iron triangle had not made matters hard enough to put right, everything is made even more difficult by a concatenation of deep-rooted tradition and new circumstances. Together these provide a formidable obstacle to political change.

Japanese society is consensual. The Japanese themselves consider *wa*, harmony, to be its foundation, and though the facts may not support this belief, conflict is undoubtedly frowned upon and consensus favoured. Plenty of good consequences follow from this. Japan appears to be an exceptionally contented society. It is certainly an egalitarian one, with a huge middle class, little social envy and remarkably small income disparities, especially considering that the transition from poverty to Prada has happened so fast. In how many countries could a fall in asset values as big as that just experienced in Japan occur without huge social disruption (golf-club membership fees, an important indicator in such a golf-crazed country, fell by 93% between 1989 and 2001)?



But, as with so many aspects of Japan, the good tends to be accompanied by the bad. It is partly the desire to ensure social harmony that has led to the cosseting of rotten businesses and incompetent public-sector corporations: unemployment, even in the short term, has to be avoided at all costs. That makes any kind of restructuring difficult. Moreover, it is possible that, in the face of determined vested interests, Japan may actually need a bit of conflict. As for consensus, if no action can be taken until everyone agrees on it, then no action will be taken. A consensual system inevitably gives the power of veto to one and all. And if action is in fact taken, the person who holds out longest will get his way.

Another consequence of this cohesive egalitarianism is that it reinforces the lack of individualism. How many Japanese excel on the world stage? Akira Kurosawa (film-maker, now dead)? Sadako Ogata (former head of the UN's refugee agency)? Seiji Ozawa (conductor)? Japanese do not like to stand out in a crowd. They tend to operate in groups, and any kind of breaking away is frowned upon. This does wonders for *wa*, but it discourages risk-taking. It also militates against the creation of a culture of personal responsibility, which is necessary for a culture of accountability. And it does nothing to encourage leadership, the lack of which is so conspicuous.

The fondness for group activity means most Japanese travel in groups, a habit that is said to date back centuries to the days when they flocked from temple to temple to hear Buddhist teachers. Nowadays it means that when they go abroad, instead of meeting foreigners, they tend to talk only to each other, and thus learn little at first hand of people beyond their shores.

Impact

Japan closes itself off from the world in other ways too. The Japanese are less ethnically homogeneous than they would like to believe, but the absence of people who are obviously of foreign descent is a striking feature of even Tokyo, let alone places beyond the capital. Contrary to what some Japanese believe—Yasuhiro Nakasone, a prime minister in the mid-1980s, once remarked that “the Japanese have done well for...2000 years because there are no foreign races in the country”—foreigners actually bring in ideas and practices that can make life better. Murray Sayle, a long-standing observer of the Japanese

scene, points out that Japan's isolationism keeps out useful immigrants from, say, India's software industry, but lets in dubious “citizens” such as Peru's disgraced ex-president, Alberto Fujimori.

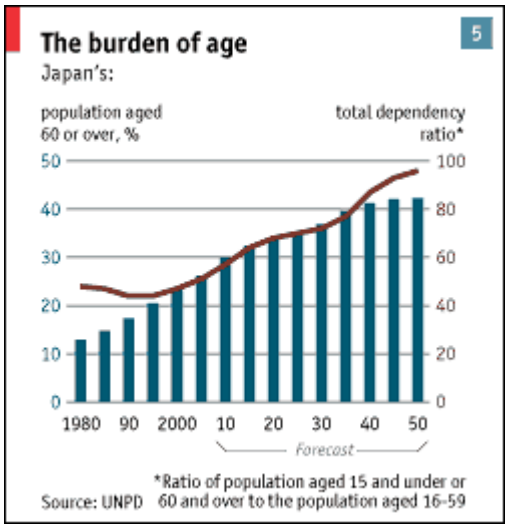
It beats being a daughter-in-law

The old, old problem

On top of all this comes another of those double-edged sabres being felt so sharply in today's Japan: the demographic consequence of decades of good health and prosperity. During the 1990s, Japan has been ageing faster than any other society in the world, meaning that the proportion of elderly is growing as the proportion of young diminishes. Between 1970 and 1994, the over-65s doubled, from 7% to 14%, thus coming to outnumber those aged 15 and under. Today almost one Japanese household in three has at least one elderly member. By 2015, over a quarter of the population will be over 65—a higher proportion than in any other country.

The ageing reflects the excellent nutrition and health of the Japanese. But the concomitant prosperity has brought different effects for the young. The most notable is their reluctance to have babies. The number of births has been declining since the 1960s, but it was not until the 1970s that the fertility rate—the average number of children born to each woman over a lifetime—fell below 2.1, the figure needed for a population to maintain its size. By the 1990s, the rate had fallen to 1.41.

There are two ways of remedying such a situation: a change in habits, or immigration. At present, young Japanese show few signs of wanting to get back to breeding. They are marrying later—men at the age of nearly 29 in 1994 (compared with 26 in 1950), women at over 26 (22 in 1950)—and therefore have babies later and in smaller numbers. In Japan, as elsewhere, marriage appears to be going out of fashion. The divorce rate rose by half between 1990 and 1998, and more and more Japanese are choosing not to marry at all.



Among the reasons for this is a peculiarly Japanese one: the wife of an eldest son in Japan is, by tradition, expected to live in the family home and look after her parents-in-law. Most unmarried sons in Japan are, these days, eldest sons, and the prospect of caring for their ever-more antique parents is not altogether enticing for an educated young Japanese woman. Far nicer to go on living rent-free with her own parents as a “parasite single”, or become a “freeter”—one who drifts from job to job rather than settling down to conventional employment. Some 10% of the 15m unmarried Japanese aged 20-34 are freeters.

The Japanese differ from their counterparts in other rich countries in one other crucial respect: though they turn up their noses at marriage, they do not have children outside it. Whereas 62% of all births in Iceland occur out of wedlock and 38% in Britain, in Japan the rate is just 1%. The stigma of illegitimacy, combined with the relative ease with which an abortion can be obtained, means that almost all Japanese children are born to married couples.

Demographers predict that by 2010 the number of Japanese aged 20 to 29 will have fallen by over 4m. If Japan wanted, it could make up numbers the way other countries do, by accepting immigrants. But in Japan foreigners are tolerated more than welcomed—and often held responsible for the country's low but rising crime rate.

That tends to make their position awkward. Of the total of about 1.7m official foreign residents (1.3% of the population), the biggest group is ethnically Korean. In most countries the Koreans would not be considered aliens, since most of them, and often their parents and grandparents, were born in Japan, the descendants of forced labourers brought over during Japan's annexation of Korea in 1910-45. But only if at least one parent was Japanese are they automatically eligible for citizenship.

The two other main groups are the 300,000 or so Chinese (a tenth of them students) and the 225,000 Brazilians (ethnic Japanese whose forebears emigrated to Brazil). In addition, 54,000 visas are granted each year to “entertainment” workers, many of them Filipinas who work as prostitutes in “hostess” bars. But, however useful such people may be—and never mind the less established “foreign visitors” who staff the nightclubs, coffee shops, love hotels and slot-machine arcades of places like the Kabukicho district of Tokyo—they will find it hard to become Japanese. Naturalisation is rare. Although one man of Finnish descent, Marutei Tsurunen, now sits in the Diet as a citizen, only about 100 westerners are naturalised each year. *Jus sanguinis*, the law of the bloodline, is the principle on which citizenship generally rests (suggesting that the leader of Britain's Conservative Party, Iain Duncan Smith, who had a Japanese great-grandmother, might be able to claim a passport, though in fact the one-Japanese-parent requirement would deny it to him).

Why does all this matter? Chiefly for economic reasons. First is the familiar problem of all ageing societies—that a dwindling band of young has to carry a swelling band of oldies. This raises problems for pensions (Japan has a pay-as-you-go system) and health care (the number of people with senile dementia is set to reach 2.6m in 2015, up from 1m in 1990). It may also affect productivity, if some people have, or choose, to work on into old age.

Japan, however, is also suffering an effect that arises from its practice of underpaying young workers as part of an implicit bargain in which, after automatic promotion, they will be overpaid when older. The “seniority” system worked well when the population was predominantly young: it meant cheap labour. Moreover, the deferred cost probably did not seem unduly high; though life expectancy had risen for men from 50 years in 1947 to 69 in the 1960s, few would have predicted that by 2000 it would have reached 78. But the expense is not just a matter of providing for pensioners. Already, as the post-war baby-boomers reach their 50s, Japan's lifetime-employers are carrying the cost of paying their senior workers over the odds in return for all the wages they forwent two or three decades ago.

Making matters worse, at least for those who believe that Japan has to reform, are the political effects of an ageing society. Older people tend to resist change. They are loyal to old habits and old politicians. And, in Japan, they keep their savings unproductively in the post office.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Lionheart to the rescue?

Apr 18th 2002
From The Economist print edition

Saviour of his party, if of nothing else

AP

The hair also waves

TO SORT out the mess, enter, last April 26th, one Junichiro Koizumi. To some, Mr Koizumi may seem an improbable new broom. His family has been part of the system since before the war, his grandfather having served 35 years in the lower house of the Diet (some as a cabinet minister), his father having served 25 (ditto) and he himself having already clocked up 28 (and yes, he too has been a minister before).

Despite his conventional background, he is nonetheless an unusual figure in Japanese politics. A long-standing admirer of Takeo Fukuda, a prime minister (1976-78) with a reputation for reform, he is nowadays a member of no faction, and indeed has long criticised the faction system and the cosy relations among politicians and business on which it thrives. He is relatively young by the standards of Japanese politicians (60), divorced, speaks a bit of English (attended the London School of Economics for a while) and, more important, addresses his countrymen in language they can understand. Indeed, he is a master of television, the popular press (particularly sports papers) and modern media in general; his e-mail magazine *Lionheart* goes out to over 2m subscribers each week. With flamboyant wavy hair, a weakness for both opera and heavy metal, and all the appearance of a human being rather than a waxwork gerontocrat, he proved last year to be wildly popular with the Japanese voters.

The ecstatic enthusiasm he aroused swept him first to the leadership of the LDP, thus to the prime ministership, and then to triumph at the head of his party in the election for the upper house in July. Since his campaign had been based partly on criticism of that party and partly on the need for painful reform, all this seemed rather extraordinary. The party elders, who had accepted his rise to the LDP leadership only because they shared the universal view that the alternative was certain defeat, could not quite bring themselves to welcome his victory. But the LDP had had its best result since 1992.

Mr Koizumi soon showed that he had been sincere in promising change. Though the Hashimoto faction remained much the largest in the Diet, he gave it only two cabinet positions, down from five in the outgoing government of Mr Mori: merit, not faction, was what Mr Koizumi sought. He broke with tradition, too, by bringing in outsiders, giving three portfolios to non-politicians from the private sector. Bolder still, he handed five of his 17 cabinet jobs to women, one of whom, Makiko Tanaka, was almost as popular as he was, and for much the same reasons: she was seen as a straight-speaking, heterodox reformer determined to do battle with the system, even though she was the daughter of perhaps the most corrupt and manipulative of modern Japan's prime ministers.

The new-broom effect

Mr Koizumi then lost no time in announcing an ambitious programme of reform. In his inaugural address last May, he was promising “structural reform without sanctuary”—meaning no quarter would be given to sacred cows. The next month he was unveiling programmes to transform government through privatisation and regulatory reform, to bring in a new tax system, to tackle the banks' bad debts, to liberate local governments and to control the budget deficit by issuing no more than ¥30 trillion of new bonds. In August, the cabinet adopted a budget that cut public-works spending by 10%. And in September he declared war on the special corporations.

It was all great stuff, and the pundits loved it. So did the public: Mr Koizumi's popularity ratings soared.

But critics pointed out that most of what he promised to do concerned the public sector. This was certainly ripe for reform, but the action plan left the immediate problem of the banks virtually untouched. And there were, inevitably, doubts about whether Mr Koizumi, however good his intentions, would be able to achieve his ends.

As an old hand, Mr Koizumi knows the LDP well. Within the party he has had two allies, Taku Yamasaki and Koichi Kato, whose surnames' initials, along with Mr Koizumi's, form the letters YKK, by which the trio are known. The new leader made Mr Yamasaki secretary-general of the party, where he remains influential. But Mr Kato (a former secretary-general) resigned from the Diet this month amid allegations that he had misappropriated political donations; he had already been weakened by a bungled attempt to become prime minister 18 months ago.

Mr Koizumi has brought in several outsiders to offer advice: a historian, Naoki Inose, now helps him prepare the special corporations for slaughter, for instance, and an economist, Haruo Shimada, offers ideas for microeconomic reform. He also leans heavily on his chief cabinet secretary, Yasuo Fukuda, the son of his prime-ministerial mentor. But the two on whom he relies most are Heizo Takenaka, the minister for economic and fiscal policy, and Nobuteru Ishihara, the minister for administrative and regulatory reform, both considered highly capable. In so far as politicians run things in Japan, these two, and Mr Koizumi himself, are the ones who count. All three, incidentally, are graduates of Keio University, which sets them at odds with the top bureaucrats, most of whom are Tokyo University men.

What of the policymaking institutions? Mr Koizumi's aim is to remove policymaking from the clutches of the LDP tribesmen and the bureaucrats. The idea is that he and his associates should make their proposals, have them endorsed by the cabinet and, when appropriate, by the new (albeit pre-Koizumi) Council on Economic and Fiscal Policy, thus bypassing the party's Policy Research Council and the vested interests in the ministries. It is a nice idea and to some extent it works. But in some areas it does not: Japan's foreign aid, for example, is still largely dictated by interest-groups (ie, the construction lobby), and the party's tax committee remains powerful.

The clean sweep that didn't happen

In truth, the LDP's dinosaurs will not go quietly. Plenty remain in positions of influence: the deputy chairman of the Policy Research Council's subcommittee on highways is none other than Hiromu Nonaka, the power behind Mr Mori's do-nothing administration. In January, 13 highway projects that had been killed a month earlier were resurrected by the road tribe. In February, Mr Koizumi's health reforms were under threat.

This does not mean that Mr Koizumi has had no successes. Some consider it a triumph that he should even be proposing the abolition of such outfits as the highway-construction corporation, or the ending of the system of hypothecated taxes that helps to sustain their spending habits. But Mr Koizumi has made some mistakes: he caused a needless fuss last August by insisting on visiting the Yasukuni shrine, where Japan's war dead—and some war criminals—are commemorated. He was then somewhat sidetracked from domestic matters by Japan's response to September 11th. And all the while he has shown himself unwilling to take controversial action to deal with the banks' bad loans.

Doubts about the strength of his commitment to reform were reinforced in January when he proudly took the credit for the ¥420 billion bank bail-out that saved the Daiei retail chain from going under. A month earlier he had seemed to welcome the collapse of the Aoki building company, saying it was “a sign that structural reforms were making smooth progress.” Of course, Mr Koizumi knew that Japan's retail industry was overcrowded and inefficient, but Daiei was a bigger company, with 50,000 employees. Next the government was intervening to help Snow Brand, a food business that had admitted to repackaging beef to enable it to receive special government subsidies. Courage seemed to be failing the Lionheart.

That was soon to be confirmed in many people's minds. On January 29th, driven to distraction by her persistent feuding, he sacked Ms Tanaka, his turbulent foreign minister. Her squabbles with her staff had often seemed pointless and petty, and she had achieved virtually nothing on the diplomatic front, but the public had liked the way she tried to defy the bureaucrats, who had now won a decisive victory over her. Mr Koizumi's popularity rating—from which he derives virtually all his strength—dropped from nearly 80% to 56%. Worse, as time went by, it was revealed that one of those with whom she had been feuding, an LDP politician of the old school called Muneo Suzuki, had been intricately and quite improperly involved in Foreign Ministry business. Accused of bid-rigging and other malpractices, Mr Suzuki was obliged to resign from the party, amid cries that Mr Koizumi had taken the side of a dinosaur

of the worst kind against the virtuous Ms Tanaka. The scandal knocked another 12 points off Mr Koizumi's popularity rating, leaving his popular base as uncertain as his reformist credentials.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

The regions that can say no

Apr 18th 2002
From The Economist print edition

Something is stirring in the prefectures

AP

Ishihara spots an American

A FEW years ago, a visitor to Japan who asked for suggestions for places to visit outside the capital could be told, “Don't bother. Everyone you need to see can be found within a mile or so of the Palace Hotel.” No longer. It would be wrong to say that power has overnight been devolved to the regions, but some of the things that are happening outside Tokyo may herald bigger changes than can be delivered by any single reformer, even a lion-hearted prime minister.

Here is a tiny example: in January, Maihara, a town of 12,700 people in Shiga prefecture, held the first election in the country in which permanent foreign residents were allowed to vote. Bigger changes are happening elsewhere. In Mie prefecture, a dispute about whether to build a nuclear power plant had been running for 37 years before a new governor, Masayasu Kitagawa, broke with all tradition in 2000 by simply deciding against it. In a country that depends on nuclear power for 35% of its electricity, the consequences were felt much farther afield.

Mr Kitagawa is one of a new breed of governors—independent of party, independent of ties to business and, at least in his case, independent even of ties to ties: in a bid to save money on electricity, Mie's officials do not have to wear suits or ties to work in the summer so that the air-conditioning need not be turned on until the temperature reaches 28°C (82°F). The annual saving is ¥500,000.

Mr Kitagawa has cut about 800 budget items out of the 3,300 he inherited when he took office in 1995, but his real claim to be a reformer rests not on saving money but on his belief that the voters come first. “You must start from the demand side,” he says, “not the supply side,” before launching an attack on the bureaucracy, the LDP, Tokyo University, centralisation, environmental ruin and the rest.

The beauty of grass roots

The people of Mie love it. So, apparently, do the people of Akita, Chiba, Nagano, Tochigi, Tottori and Tokyo itself, in all of which places new-breed governors have been installed. In Akita, a rural prefecture in northern Honshu, the LDP candidate was trounced a year ago by the incumbent governor, Sukeshiro Terata, who ran unattached to any party. A month earlier in Chiba, which abuts Tokyo, a 68-year-old woman, Akiko Domoto, smote both the LDP and the Democratic and Communist Parties. Miss Domoto, a former television reporter, carried the day despite having business, the trade unions and the parties all ranged against her. She started her campaign with a group of only 60 supporters.

Yasuo Tanaka, the governor of Nagano prefecture since 2000, is a playboy novelist who shows his commitment to open government by sitting behind glass walls. The new governor of Tochigi prefecture, Akio Fukuda, defeated a former bureaucrat who was supported by all the main parties. In Tottori, Yoshihiro Katayama has amazed everybody by opening the prefecture's books to one and all.

Some of the new breed may yet disappoint; indeed Mr Tanaka, in his tight leather suits, is already the butt of criticism. Much the most controversial, though, is the governor of Tokyo, Shintaro Ishihara. He has a new contempt for the establishment and a populist nose to go with it: when he learnt that many banks were paying no corporate taxes, he slapped a 3% tax (since ruled illegal) on the gross operating revenues of all banks headquartered in Tokyo. But his notoriety derives mainly from his nationalism. An early admirer of Yukio Mishima, an accomplished author who committed ritual suicide in 1970, calling for a revival of militarism, Mr Ishihara is also a successful novelist, though he is better known for his non-fiction book, “The Japan That Can Say No”, an anti-American diatribe.

Whether he is dangerous or merely sinister is a matter for conjecture. He is capable of xenophobia, calling on the armed forces to be vigilant about foreigners in the event of an earthquake, and writing utter nonsense about Japan “liberating” Asia in the war. He has a gift for catching the public mood, first with his novels, especially “Season of the Sun”. He also raises questions about Japan's place in the world that need to be discussed, and often are not.

Many of these governors are vigorous champions of the environment. Mr Kitagawa in Mie is a fanatical recycler. Miss Domoto wants to kill a land-reclamation project that the bureaucrats in Tokyo have been promoting for nearly 30 years. Mr Tanaka has put a stop to dam-building in Nagano, and Mr Fukuda also opposes dams in Tochigi. But the main thing these rather different governors have in common is their heterodox, confrontational style. This they share, of course, with Mr Koizumi. But he lacks one thing they have: the direct support of the voters. It is this that gives the governors much of their power.

That power is still largely latent. After all, over half the governors of Japan's 47 prefectures are still ex-bureaucrats. But the trend is clear. The regions, even some rural ones like Akita, are following the example of many towns and cities in electing outsiders—Communists, novelists, comedians, actors—in rejection of the old way of doing things. At the same time, at least until the upper-house election last July, when the Koizumi effect came into play, the LDP has been losing it appeal. The story from the provinces may not have the party's elders quaking in their boots quite yet. But they would be unwise to ignore it. The story of modern Japan begins, after all, with samurai from two southern provinces seizing the imperial palace in Kyoto and declaring the restoration of the Meiji emperor. Perhaps it could happen again.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

East, west, home's best

Apr 18th 2002
From The Economist print edition

The jolt from outside that might, but won't, come

AP

It may not frighten al-Qaeda, but it blew a hole in Article 9

IN TRUTH, the Meiji restoration that marked the end of the Tokugawa shoganate and the beginning of modern Japan came about also as result of a different event: the arrival in Japanese waters in 1853 of Commodore Matthew Perry and his four menacing black warships, which led eight months later to a treaty with the United States and thus to the opening up of a country that had been largely closed to the world for centuries. If this was the first great transformation of modern Japan, and the second world war was the second, could the third also be promoted by some foreign agent?

Two candidates present themselves. The first is the familiar one, the United States, occupier, progenitor of Japan's constitution, friend and defender, chivvier and competitor. In their ambiguous relationship, America has used Japan politically as a showcase for capitalism during the cold war, economically as the financier of its budget deficits and militarily as an unsinkable aircraft carrier in Asia. Japan has used America as a purchaser of its goods and the provider of its defence. On occasion, the link between the two countries has been called “the most important bilateral relationship in the world, bar none.” Yet its history during recent decades has been one of constant friction—usually over trade, often over America's 38,000 troops in Japan and, especially during the 1990-91 Gulf war, over Japan's failure to send its armed forces abroad.

We'd love to help, but...

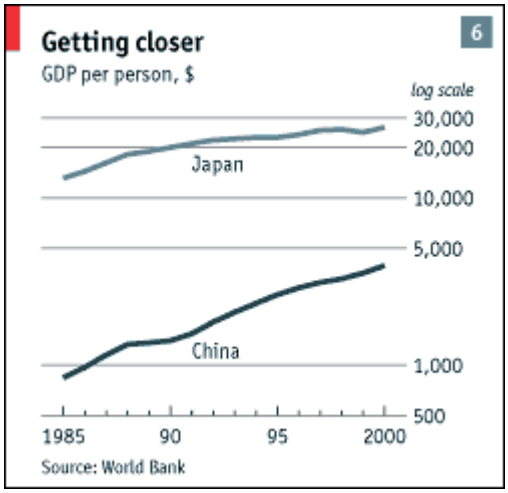
Few episodes have been as vexing as the Gulf war, and few have resulted in as much change as a result. The Americans, always conscious of their treaty obligation to defend Japan, whereas Japan has had no such duty to defend the United States, were outraged that a country that was totally dependent on imports for its oil should risk not a single soul in the war to get Saddam Hussein out of Kuwait. Japan, moreover, spent more on defence than any country except Russia and America itself. After much temporising, Japan in the end picked up a bill for ¥1.5 trillion and, four months after the war had ended, sent six minesweepers to the Gulf. Uniquely among the coalition's members, its contribution to the war effort—a sixth of the $60 billion total—necessitated a tax rise.

For this Japan got no thanks, but that was not its only complaint. If it could not send its “self-defence” forces abroad, that was because Article 9 of its constitution forbade it. And who had written Article 9? None other than General Douglas MacArthur, the American in charge of the post-war occupation, who had wanted to ensure that Japan would never again be able to intimidate another country.

The entire episode left a nasty taste in the mouth, especially in that of a Foreign Ministry official, Yukio Okamoto, who resigned before it was over, vowing that nothing like it should happen again. Today he is an independent consultant and a special adviser to Mr Koizumi. His influence can, perhaps, be detected in the legislation that the Diet passed, with unusual dispatch, in the weeks after September 11th. By the end of October an anti-terrorism bill had become law, for the first time allowing Japanese forces to be sent to a theatre of operations for some reason other than “survey or research”. True, it confined Japan's armed forces to “rear-echelon” activity (nothing violent) in non-combat areas. True, the bill was to expire after two years. Even so, by November five Japanese naval vessels had set sail for the Indian Ocean in the navy's first wartime venture abroad since 1945. By January they were refuelling British warships.

The importance of all this is not the help that Japan can bring to the fight against al-Qaeda. It is that the great taboo embodied in

Article 9 is now broached; a step has been taken towards unravelling the paradox that Japan, like other countries, holds the right to collective self-defence under international law but cannot exercise it without violating its constitution. With 600 Japanese troops taking part in the UN's peacekeeping operation in East Timor, and polls suggesting that a clear majority now favour a bigger peacekeeping role for Japan, it seems that the Japanese are becoming less timid about the use of force. Yet they will need to shift a lot more if they are ever to shed their role as chequebook diplomats and instead take up a seat as a veto-wielding member of the UN Security Council, as they have long wished. Such an ambition cannot realistically, in the current state of the world, be satisfied without the repeal of Article 9, and that still seems unthinkable.



Japan will play a part on the world stage. It will hold environmental gatherings and conferences about Afghanistan, as it did in January. It will give aid generously, albeit 10% less generously this year than last. It will fret about North Korea's ability to send missiles over its territory, as it did in 1998. And it will co-operate with America on research into missile defences. But will it ever deploy them itself, and if so, would it ever fire an anti-missile missile if it saw a rocket whizzing past? That rocket might after all be heading not for Japan (in which case self-defence would allow it to fire) but for somewhere else (in which case Article 9 would forbid it). Pondering this for a few minutes would render the question academic, since the missile would be past interception.

Such issues are discussed by defence pundits in Japan, but by few others. Mr Okamoto, admittedly two months before September 11th, wrote that “there is no consensus among the Japanese about exposing their country or any of their citizens to any degree of risk.” Rather, he saw “an obsessive concern to be on the safe side”. In other words, Japan is not going to change dramatically as a result of pressure from the United States. Such arm-twisting has been tried often enough in the past, especially over trade, but it has seldom had much effect. The Japanese simply do not care all that much about the outside world. They have a long history of isolation, they are deeply suspicious of foreigners (Japan accepted only 22 asylum-seekers in 2000, compared with Germany's 120,000) and they usually feel at a loss abroad. They will change, but things are not so bad that they have to change quickly.

The dragon next door

They hope. The one outside power that could shake their complacency is China. The Japanese have been trading merrily with China since the 1970s, indeed they had become its biggest trading partner by 1984. But the Japanese have, understandably, seen China as a poor country, and accordingly given copious aid (despite little evidence of gratitude: China regards the aid as reparations). Now their trading partner is not looking so poor.

The Japanese have begun to notice that while their economy totters or shrinks—the average rate of growth in the 1990s was 1.4% a year—China's bounds ahead (by 7.3% in 2001, if you believe the figures). Whether you look at the change in the relative size of their GDPs, or at their respective share of the Asian economy as a whole, China is on the up while Japan is on the down. Add to that a second development, the Japanese worry that their economy is becoming “hollowed out”: steel mills are closing, car plants are contracting and, worse, old export stalwarts like Isuzu are starting to import their trucks from Chongqing. One of the few stars of Japan's retail industry is Uniqlo, a chain of clothes shops whose trick is also to buy its garments from low-cost China.

The Japanese may be foolish to worry about these developments; they merely reflect the fact that Japan is a mature economy that should be turning to services and more sophisticated products—which it could sell to the Chinese, among others—rather than the clunky exports that served it so well in earlier times.

The trouble is, though, that the Japanese are not very good at many of these new activities, whereas the Chinese are showing worrying signs of proficiency. In computer software, for example, China thrives while Japan flounders. One reason may be the Japanese education system. To man its electronics factories in the 1970s and 1980s, Japan could turn out numerate workers able to read a circuit diagram. But to crack the software market you need to speak English, and this, despite learning it at school for eight years, most Japanese cannot do. Often after just three years, Chinese can.

All this has been troubling enough, but then a shock of another kind appeared: at a regional summit last November, China suddenly proposed a free-trade area with the countries of the Association of South-East Asian Nations within the next decade. This looked like a clear bid by China for the leadership of Asia. It may not have succeeded, but it evidently set some mental machinery turning. In Indonesia, the *Jakarta Post* responded that it would not be long before China displaced Japan as the engine of the South-East Asian economy.

It also set Mr Koizumi off double quick on a trip round the region. But how could he trump China's proposal? The best he could come up with was a free-trade area with just one country, tiny Singapore. And why Singapore? Because Singapore has no farmers, and Japan's protected farmers, the stoutest of the LDP's supporters, would not stand for free trade in agriculture. In such ways is Japan's foreign policy crimped by its vested interests.

Chinese-Japanese relations are less than cordial, despite the gloss the Japanese press put on Mr Koizumi's visit to Beijing last October. They have been particularly strained recently by China's refusal to let Japan raise a North Korean boat that sank in China's exclusive economic zone after an exchange of fire with Japanese coastguard cutters last December. China and Japan mistrust each other, and Mr Koizumi is regarded by many Chinese, and some Koreans too, as a nationalist. They did not like his visit to the Yasukuni shrine, and they want him to intercede in the long-running row about Japan's history textbooks, which are still less than frank about Japan's wartime behaviour. Nor do they like Japan's anti-terror legislation or, come to that, the depreciating yen. For their part, the Japanese, like most others in Asia, regard China with great wariness.

But will China force real change on Japan? One day, maybe. At present, though, the two economies look quite complementary, and Japan has no need to think that the countries of South-East Asia are eager to throw their arms round China's neck. Paradoxically, the event most likely to make Japan do something radical, such as amending its constitution or even going nuclear (as long ago as 1978 Takeo Fukuda said Japan reserved the right to build “any type of weapon” for its defence, even a nuclear or bacteriological one), would be a falling out with America over China.

The fear that America may one day junk Japan in favour of China is an old if intermittent one among Japanese. It arose most recently when Bill Clinton went to China in 1998 and, it is said, persuaded President Jiang Zemin not to point his missiles at American targets, but neglected to ask for a similar favour for Japan. However, George Bush's administration is full of people who know Japan and are trusted by the Japanese. Having responded to September 11th so well, Japan seems unlikely to feel any exceptional heat from America in the near future.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Transition, not transformation

Apr 18th 2002
From The Economist print edition

Muddling on, muddling through, with luck

Reuters

Just a little change, please

CONSERVATIVE as Japan may be, it is not a stationary society, nor even one that is blind to the need for change. All those who voted for Mr Koizumi last year must have seen the necessity of reform—painful reform, at that—even if many deluded themselves about the discomfort it would cause them personally. And in fact almost every aspect of Japanese life has been changing during the lost decade, and would have been regardless of the politicians supposedly guiding the country.

The devastation of the industrial economy is, paradoxically, evidence of such change. The winnowing of the construction companies' order books, the growth of the Chinese-supplied Uniqlo clothing chain, and the proliferation of Starbucks and other coffee shops all show that the private sector is already shifting from manufacturing to services.

Do not imagine either that the Japanese have lost their zeal for innovation. Perhaps surprisingly, deflation actually promotes new products: if a company cannot grow by increasing its prices, it has to do so by creating new ones. More important, though, is traditional research and development. In addition to the spending by private industry, which continues apace, the government spent ¥17.3 trillion on R&D in 1996-2001, much of it on superb science facilities that are now becoming ready for use. Though these are hard times, public spending on R&D is set to rise from 0.72% of GDP to 1%in the next five years.

Government, too, has changed. Much of what Mr Koizumi promises has been promised before by others, and some of it delivered. He already inherits some changes started by that great reactionary, Mr Hashimoto. If Mr Koizumi is the first prime minister to be able to take control of the budget, that is thanks to Mr Hashimoto. He can thank his predecessor too for the breaking up of the FILP, for the “big bang”, however muted, that was thrust upon the financial markets in 1997-2001, and for the reorganisation of government ministries that came into effect last year. The electoral system was reformed in 1994. A programme of privatisation was pushed through by Mr Nakasone in the 1980s.

Political behaviour is changing too. Voters are breaking old habits not just in mayoral and prefectural polls, but also in those for the Diet, where anti-LDP independents are on the rise. Even the LDP members who win election are more likely now to be technocratic and policy-minded. They may also know some economics.

True, many people now do not even bother to vote: turnout in the upper-house election last July fell two points, to just 56%. But one big change is that women are becoming more active in politics. In general women are becoming better educated and more likely to go out to work. And they are becoming more assertive: most divorces are initiated by women.

The young, too, are changing. Many reject the rigid formalities of the past, spurning suit-and-tie careers in favour of life as a freeter. Many, of both sexes, dye their hair; some dress as punks.

In time, no doubt, all these changes will be reflected in Japan's institutions. But how long will it take? Optimists say the worst is already over and Japan has weathered it well. They point to the social tranquillity of the past decade, and argue that Britain took longer to defeat its vested interests (the unions) and accomplish the move from manufacturing to services under Margaret Thatcher. As for banking crises, the savings-and-loans crisis in America involved no more than 3-5% of GDP in duff loans, yet it lasted at least five years.

Not so bad

There are other reassuring qualifications to what looks like bad news. Though the debt-to-GDP ratio looks horrible, what matters is not any particular ratio but the level that spooks the markets. Since Japan owes virtually all its debt to its own people, the markets so far seem untroubled. Comfort can be taken, too, from Japan's wage system: since bonuses, which usually form a big part of a *sarariman*'s wages, can be cut relatively easily, the system is more flexible than many think. Even the giddy number of bankruptcies, surpassed only in 1984, is in fact historically low when measured as a proportion of the total number of companies. Remember, too, that Japan has no underclass, no big drug problem and no deadweight like eastern Germany or southern Italy to drag it down.

So cheer up? Not altogether. The people say they want reform, but the system delivers, at best, adjustment. And old habits die hard. A consensus emerges, say, that Japan wins too few Nobel prizes (only nine in 100 years). So how is the problem tackled? In a very Japanese, top-down way: the government sets a goal of 30 Nobel prizes in the next 50 years, and at once invites members of the Nobel Foundation's selection committee on an all-expenses-paid trip to Japan. The stifling conformity of the system not only inhibits the emergence of prize-winners at home, it also increasingly forces enterprising Japanese abroad. Last year the Ministry of Finance sent three of its brightest to American business schools; they all stayed when their courses ended. This year the ministry is sending none.

The durability of LDP rule is further evidence of the inertia that has to be overcome. In other countries the LDP rascals would have been thrown out long since. In Japan they were once, in 1993. But the government of Morihiro Hosokawa, modern Japan's first non-LDP prime minister (though actually he was an ex-LDP man), lasted only a few months: in 1994 the LDP was back, albeit in coalition under a Socialist. Still, Mr Hosokawa got further than most other defectors, such as Ichiro Ozawa, a conservative would-be reformer who set up the New Frontier party. It is now defunct.

The LDP is undoubtedly in decline, but other parties seem unable to exploit its misfortune. The Social Democrats, who for years provided the main opposition, are in similar decline, and the Democratic Party, which has now replaced them in the role of oppsition, does not look like a party of government. Other parties crowd the scene, but none grows big. Perhaps that is because the LDP is not like a western party. Since its job is not so much to govern as to win elections and divvy up the spoils, it is not bound together by political philosophy. Accordingly, dissenters can criticise and still stay inside it. For all the talk of a realignment in which the purportedly reformist Democrats would join like-minded LDP members, no great split in the ruling party looks likely at present.

Where does that leave Mr Koizumi? Dependent, for a start, on the LDP, whose obstructionist dinosaurs may dump him when he has served his purpose; and dependent also on his conservative partners in government, the New Conservative and New Komei Parties. These two, neither of them in the vanguard of the revolution, are necessary because the LDP lacks a majority in both houses of the Diet.

Unless he can regain his early popularity among the voters, it is far from clear that his parliamentary position is strong enough to allow him to succeed in his ambitions. He is, after all, trying to impose change against a host of vested interests in the face of deep-rooted social practices. Moreover, he is in charge of a constitutionally weak-centred state. Even history is against him: the Japanese state is a fairly modern invention dating back only to the Meiji restoration. Government was never really centralised during the Tokugawa shogunate; the country, if such it was, was run with neither true central leadership nor even a general sense among the people that they belonged to a state.

Mr Koizumi has his own handicaps, too. For all his unorthodox style, he is conservative by nature and has yet to show that he is prepared to shatter the *wa* that means so much to Japanese. In particular, he is apparently unwilling to defy the paralysing tradition that says unemployment must be avoided at all costs. Any conceivable solution to Japan's economic troubles will involve higher unemployment; the only question is whether it will last for a longish time, as present policies ensure, or a shortish time, as bolder action might allow. Even now, Japan finds it hard to reconcile the generally European levels of welfare that it aspires to with its generally American levels of taxation. Higher unemployment would require much greater spending on welfare. Japan can afford it, but would Mr Koizumi dare to deliver it?

Bermuda triangle

Or could he? Could anyone? The iron triangle suggests that Japan is, like Cerberus, three-headed, but in

truth it is not headed at all: it is like Tokyo, a capital without a centre. Thus it is hard to say that power resides anywhere in particular: the iron triangle is really a Bermuda triangle, within which power—and certainly responsibility—simply disappears. And that is truer than ever when the country has no common national endeavour to energise it, as the post-war goal of catching up with the West, or the 1960 plan to double personal income within a decade, did in their time.

It remains to be seen how much the Japanese mind their genteel decline. They seem to be pretty content with things the way they are, otherwise they would do more to change them. They must have noticed, for instance, that much the most successful sectors of their economy—cars and electronics—are the only ones not plugged into the political system and systematically milked by the LDP. But it is easy to escape the obvious in Japan: life is pleasant. Some people talk of Argentina, but if the comparison has any validity it is to Argentina just before the first world war, when it was one of the ten richest countries in the world in terms of income per head, not to the stricken Argentina of today.

It is possible, though, that if Mr Koizumi fails to jerk the economy out of its torpor, the voters will turn to someone else. Since there is no obvious heir-apparent, eyes inevitably wander towards another maverick: Mr Ishihara, the governor of Tokyo. This would be the Italian outcome: when the corrupt, long-ruling party of government is definitively discredited, turn to an outsider (Silvio Berlusconi, in Italy). Mr Ishihara fits this bill, though he used to sit in the Diet for the LDP. It would be an unnerving turn of events for foreigners, and perhaps for Japanese as well. A happier outcome would be if Mr Koizumi turned out to be a Japanese Mikhail Gorbachev, the decent conservative who sees the need for reform and opens the way for others to bring it in. Better still would be a Mexican solution, in which the old guard yields gracefully to a plausible opposition—but Japan has no plausible opposition.

It may all depend on whether the country is smitten by some awful financial crisis. If it is, and the possibility is real, then the effects could be profound. But the chances are surely better than even that Japan will muddle through in its own consensual way. Inexorable economic and social forces will gradually impose their alterations, and the bureaucracy and political system will adapt: they will have to, even if the aim is merely to keep everything the same. In time, if muddle-through it is, Japan will yield its position as the world's second-biggest economy, perhaps even to a huge and energetic China. It is hardly a glorious prospect, but probably not one to trouble most Japanese for a few decades yet. If they want real change, they may have to endure disaster to get it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Offer to readers

Apr 18th 2002
From The Economist print edition

Reprints

Reprints are available should you wish to order extra copies of the survey. Please send your request to the relevant region:

World-wide (excluding North America):

Rights and Syndication Department
26 Red Lion Square
London
WC1R 4HQ
United Kingdom

Tel: +44 (0)20 7576 8000
Fax: +44 (0)20 7576 8492
E-mail:rights@economist.com

North America:

Rights and Syndication Department
111 West 57th Street
New York
NY 10019
USA

Tel: +1 212 541 0532
Fax: +1 212 641 9808
E-mail:usrights@economist.com

Corporate offers and customised reprints

For corporate reprint orders of 500 or more and customisation options, please contact the Rights and Syndication Department in the relevant region:

World-wide (excluding North America):

Rights and Syndication Department
26 Red Lion Square
London
WC1R 4HQ
United Kingdom

Tel: +44 (0)20 7576 8000
Fax: +44 (0)20 7576 8492
E-mail:rights@economist.com

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Cartels

Fixing for a fight

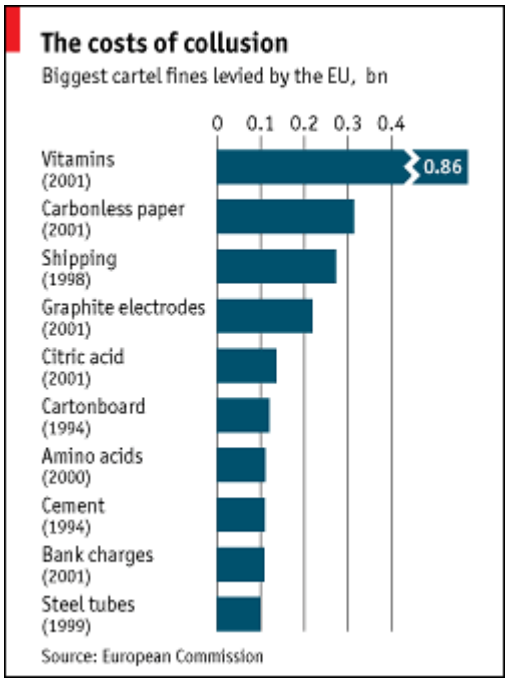
Apr 18th 2002
From The Economist print edition

Bosses beware: price-fixing and other dodgy dealings are under fire from governments everywhere, as regulators cast a wider net for culprits

UNTIL recently, the world of art seemed an unlikely place to find a cartel. For a long time, shady price-fixing deals were the province of the decidedly less chic: industries such as steel tubes, animal feed, graphite electrodes and construction are just a few recent examples. So it must be particularly galling for Alfred Taubman, a former chairman of Sotheby's, an auctioneer, to have been convicted last December in America of fixing prices with his ostensible arch-rival, Christie's. But Mr Taubman, who faces a probable prison term when he is sentenced on April 22nd, will not be the last colluding boss to come in for a nasty surprise. Many see his case as a sign of things to come.

To see why, consider Mr Taubman's alleged co-conspirator in the case, Christie's former chief, Sir Anthony Tennant, who remains safely at home in Britain. Price-fixing in Britain, as in most countries, is not yet treated as a crime. But that is changing across the world, as a wave of new rules and stronger enforcement seeks to stamp out anti-competitive practices.

Just a few years ago, America seemed uniquely obsessed with price-fixing. Today, new measures against cartel behaviour (which includes bid-rigging and deals to carve up market share, as well as price-fixing) are being taken from Sweden to South Korea, where the competition body levied its first fine against a foreign firm earlier this year. In Britain, a planned law will introduce jail sentences for cartel conspirators. In the past few years, the European Commission has crusaded with new fervour against cartels, levying the biggest fines in its history, totalling *euro*1.8 billion ($1.6 billion) in 2001 alone (see chart).



Moreover, these days it is not only manufacturers and commodity-mongers who can expect a visit from the competition cops. Recent inquiries have led them to brewers, banks and even bus operators. The current attack on cartels comes at a time when the temptation to strike cosy deals with competitors is stronger than ever, as pricing power remains weak and excess capacity abounds in the wake of the global economic slowdown.

The costs of collusion should make any boss think twice, though. The European Commission can levy fines of up to 10% of a company's turnover for cartel offences. Dawn raids are running at about one a month in the European Union. In America, fines are based on the size of the market affected, but private lawsuits can be far more costly: Sotheby's was hit by a $45m fine by the American government, but its customers' lawsuits have cost it hundreds of millions more. Such private lawsuits are on the rise in Europe, says Elizabeth Morony of Clifford Chance, a law firm.

International cartels—those in which member firms are headquartered all over the world—face new attack too. Last year, eight vitamin makers from France, Germany, Japan and Switzerland, including Aventis, BASF and Roche, were fined *euro*855m by the European Commission for fixing prices and setting sales quotas. The cartel had earlier

been fined in America, and several executives have served time in American prisons. America's Department of Justice estimates that 70% of its cartel targets last year were foreign-based, compared with none in 1990.

Global telecoms companies may soon receive similar treatment. Last summer, European enforcers raided the offices of mobile-phone companies, including Britain's Vodafone and a division of Deutsche Telekom, seeking evidence of price-fixing in international roaming charges. Mario Monti, Europe's competition commissioner, now plans to go after the industry over connection fees for fixed-line calls. Pharmaceutical companies, already humbled by the fines for the vitamin cartel, became the target of yet another investigation in Britain, earlier this month, into the alleged price-fixing of generic drugs.

Several things are driving the anti-cartel push. One is the desire to create a genuine single market in Europe, where geographic “market sharing” is seen as particularly damaging, according to Alec Burnside of Linklaters, a law firm. Last month, for example, the commission accused Carlsberg, a Danish brewer, and Heineken, a Dutch rival, of plotting not to compete on each other's home turf.

Secondly, regulators have become more sympathetic to consumer lobbies, and have turned their attention to retail goods. Britain's Office of Fair Trading claims to be running 25 cartel probes, with a shift towards recognisable household names.

Another snag for would-be price-fixers is legislation to make whistleblowing more attractive. Many countries have now followed America in encouraging guilty parties to spill the beans: the first member of a cartel to come forward now wins leniency, a concession taken advantage of in both the vitamin and auctioneering cases.

New technologies, new concerns

The smoke-filled room is the fabled venue for hatching cartels, but new technologies such as the Internet, once seen as sources of price transparency, have ironically created new concerns about collusion. Covisint, the car industry's online parts exchange, was scrutinised by America's Federal Trade Commission last year, with these fears in mind. One way to avoid problems with such exchanges is to ensure anonymity and to stop competing firms from seeing each other's bids. E-mail should also worry company bosses, as it may create an appearance of collusion if salesmen from competing firms casually correspond about, say, pricing patterns—and e-mails are hard to delete.

Given regulators' aggressive new approach to cartels, companies are having to educate themselves. Roche, a member of the vitamin cartel, has put thousands of its managers in training to teach them to follow the law. In truth, avoiding cartels such as the one for vitamins should not be so difficult. The best advice, as one lawyer puts it, is: “Don't talk to the competition.”

But there are shades of grey. Trade associations and annual conventions are one source of problems; sugar companies once came under scrutiny after such a meeting. Bosses are often keen to hear about the state of demand in their industry, but comments about price and volume targets can be taken as a tacit attempt at collusion. Joint ventures and merger negotiations are another possible minefield. When, as Adam Smith once put it, talk turns to “some contrivance to raise prices”, the best policy these days is just to say no.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Airlines in America

Saturday night fever

Apr 18th 2002 | NEW YORK
From The Economist print edition

Airlines like to think they price their tickets cleverly. Come again

TO THE layman, the pricing of airline tickets can seem a mysterious art. Yet behind the jumble of fares—seats on any one flight can sell at more than 15 different prices—is supposed to lie a rich science, known as yield management, delicately engineered by people with large brains and fancy software programs to squeeze every last cent from a plane-load of passengers. How strange, then, that the big American airlines, still mired in losses, find themselves under attack for the imbecility of their pricing.

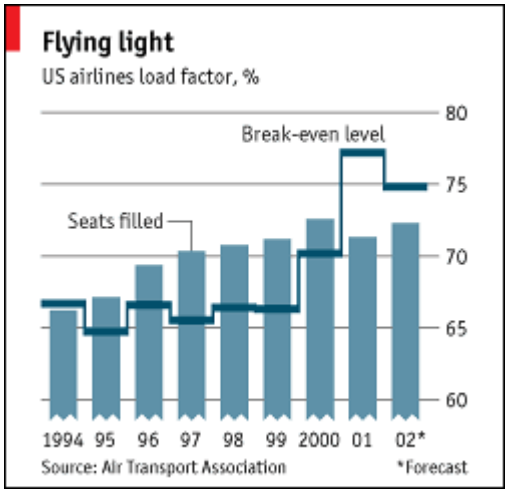
The airlines offer two basic price schedules. One is for leisure travellers. The other, which aims at business people, is known as the "walk-up" fare. Customers are sorted into the two groups using ticket restrictions. Tickets aimed at leisure travellers must be bought well in advance and include a Saturday-night stay. Walk-up tickets, on the other hand, can accommodate last-minute meeting changes and do not make the travelling executive sacrifice the weekend with the family.

On average, ticket prices fell by 8% in America last year, as airlines struggled with a weak economy and September 11th. But although business travel was hit especially hard, falling by perhaps 10-12%, prices paid per ticket by business travellers actually rose modestly, capping years of runaway inflation. As things now stand, the leisure traveller might pay $350 for a round-trip from New York to Los Angeles. The businessman next to him could be paying $2,500 or more.

Airlines defend this apparent lunacy by pointing to what economists call "price inelasticity": demand for business travel does not rise or fall much with changes in price because business folk will hop on to a plane anyway if they have to. Big companies' business-travel managers retort that they have put their inelasticity behind them, and from now on will refuse to pay higher prices. But this is what they always say in a recession, according to the airlines. Rather than invite a bloody price war, the airlines argue, it is far better to sit tight, take their losses on the chin and wait for the economy to recover.

In truth, says Samuel Buttrick of UBS Warburg, an investment bank, both sides are right. As the economy recovers, travel managers will no doubt loosen their resolve—and their purse strings. Over the longer term, however, business travellers are changing their behaviour, buying more leisure tickets, using discount carriers such as Southwest and JetBlue, or simply not travelling. Airlines are having to fill more and more seats to break even (see chart). To shore up profits, they gouge an ever-dwindling supply of full-fare mugs with ever-steeper ticket prices.

Last month, America West, a mid-sized carrier, broke ranks, got rid of mandatory Saturday-night stays and began offering discounts of up to 80% on its walk-up prices. America West claims a good reception by customers, but rival airlines have held tight to their high prices. Northwest, for instance, ruled out change late last year, says a spokesman, because it "cannot make the economics work". Quite.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

European cable

Borrowed time

Apr 18th 2002
From The Economist print edition

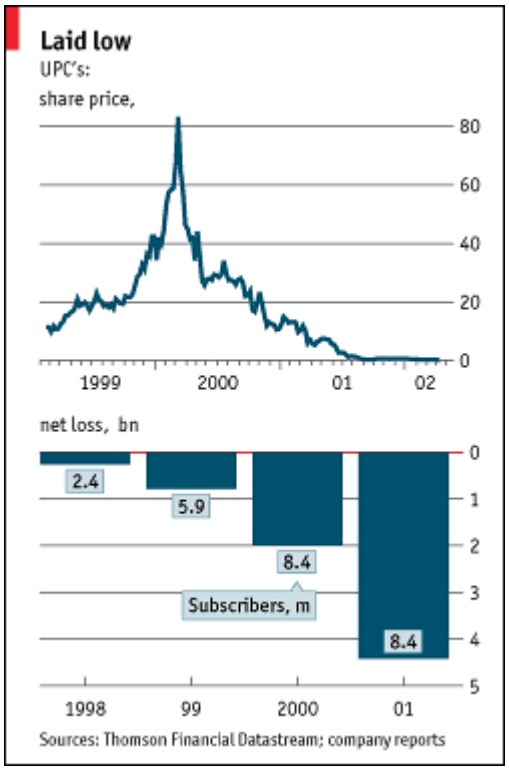
Can UPC and NTL survive their big restructurings?

IT HAS been rough, but the ride for shareholders in two of Europe's biggest cable groups is almost over. Under financial-restructuring plans announced in recent days by the Dutch-based United Pan-Europe Communications (UPC) and Britain's NTL, equity holders will be almost wiped out. Both companies are struggling to emerge from debts taken on in a race to build and buy cable assets. NTL is reckoned to have around $17 billion of debt; UPC has *euro*11.2 billion ($9.9 billion) of liabilities and less than *euro*1 billion of cash. The price of their survival is that creditors will become owners.

In NTL's case, $10.6 billion of bonds are to be converted into equity, with bondholders taking all the shares in a new entity that will control the group's British and Irish assets. Bondholders will own a more modest 86.5% of a second company that will control a ragbag of other assets around Europe. To help ensure that at least the British and Irish businesses are viable, bondholders are also giving them $500m of new finance.

That should put NTL in a stronger position to negotiate a merger with Telewest, a fellow struggler and its only remaining British cable rival. But NTL is not out of the woods yet. The deal must be approved by other creditors, including the banks that have lent it around $6 billion and want to make sure that they will continue to receive interest on their loans.

As for UPC, its owners have plenty of experience with falling fortunes. In 2000, its shares reached a high of about *euro*80, before tumbling amid rumours of impending doom, which have persisted (see chart). On April 15th, the almost worthless shares fell by more than a quarter to a mere *euro*0.11, after it emerged that Andersen, UPC's auditor, had made a regulatory filing in America in which it expressed “substantial doubt” over the firm's ability to survive (UPC's, that is, not Andersen's).



UPC insists that it will almost certainly survive, and it is probably right. Like NTL, though, it is in complicated negotiations to carve up ownership among its creditors. UPC wants to swap *euro*6.5 billion of debt for equity, leaving its liabilities more manageable. With more than 8m subscribers, the company clearly has a good deal of underlying value. The question is whether this can be unlocked through tighter management of UPC's balance sheet and its operations across Europe.

The restructuring, however, is delicately poised. Behind the façade of its Dutch headquarters, UPC is increasingly controlled by John Malone, an American cable mogul whose Liberty Media has spent heavily to enter the European market, but has little to show for its efforts. (Liberty's proposed $5 billion acquisition of Deutsche Telekom's cable assets was recently blocked by Germany's cartel office.) Mr Malone has more than 70% of UPC's parent company (which also happens to be the biggest holder of UPC bonds) and is loth to walk away from his investment. But other investors and creditors know that, so the restructuring talks have become hugely complicated. Mr Malone is under some pressure himself. Shares in Liberty have fallen by around a quarter this year. He needs every break he can get.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Making money online

The Internet sells its soul

Apr 18th 2002
From The Economist print edition

A new hard-nosed commercialism is spreading over the Internet

WHEN times are tough, commercial realities bite hard. Internet users are increasingly being asked to pay for information, music and other services. Advertisers, too, have grown more demanding. As a result, the Internet is being transformed, from a vast repository of mostly free content into a commercial cauldron in which almost everything is available only at a price.

Even Internet search-terms are up for sale, as advertisers bid to push their sites up to the top of search-engine listings. As if to confirm the trend, Yahoo! has just announced that its revised privacy rules will allow it to exploit users' personal information to market its own and business partners' products and services—unless users take the trouble to opt out by ticking a long list of preferences.

In retrospect, more aggressive commercialisation of the Internet was inevitable. As the many dotcoms that have already gone bust discovered, making money on the web is not easy—especially from advertising. Yahoo! might be a giant Internet portal with more than 230m users, but it is now desperately trying to reduce its reliance on ad revenues by providing new paid-for services and content. Last week, the firm posted its sixth consecutive quarterly loss. If its users do not go to a special site in the next 60 days to change their preferences, they are likely to be barraged by e-mail, telephone calls and other direct-marketing material.

Yahoo! says that its sales pitches will be restrained. It plans only to e-mail and call target groups of users on advertisers' behalf. But other portals have already gone further and are renting their customer lists directly to advertisers.

This has resulted in a new flood of intrusive advertising, which is beginning to irritate many users. A new business is growing up to provide software that blocks Internet ads. A program called Smasher, for instance, claims to stop pop-up ads and to remove from PCs the “cookies” (in effect, electronic name-tags) that advertisers and websites plant on to a user's machine to monitor the use of their ads.

If the Internet has a soul, it is the vast pool of information that people can explore, usually using a free search-engine. Now, even search-engines have become vehicles for marketing products and gathering information on users. Somebody using the term “digital cameras”, for instance, is probably interested in photography and may be on a shopping expedition. Many search-engine sites are now auctioning such search-terms. The more companies are prepared to pay, the higher their websites will appear in the results.

The pioneer of paid listings is Overture, a California firm that has built a profitable business from a string of partnerships with sites such as AltaVista, AOL and Yahoo! Advertisers are now paying around 60 cents for every user clicking on their link, so as to get towards the top of the listing for digital cameras. The idea behind such paid listings is spreading fast. Overture, however, is now suing Google, one of the Internet's most popular search-engines, alleging that Google's own recently launched system for auctioning keywords infringes an Overture patent. Google denies this.

Although the Internet's growing commercialisation is unlikely to slow down any time soon, it is still far from clear what the best business models should be. On the face of it, aggressive, in-your-face advertising seems to work. Advertisers say that their “click-through” rates—the percentage of visitors to a website who click on an ad—is greatly increased by the use of pop-up ads rather than stationary “banner” ads. But many people may be clicking accidentally as they struggle to get rid of such ads. Some sites have become virtually unviewable because of the mass of advertising directed at anyone who visits.

If users do not want to be hounded by advertising, they may have to consider something that most have so far been loth to do: paying subscriptions for their favourite sites, just as they do for newspapers, magazines or cable-TV channels. Already, companies are charging for e-mail services that were once free. The Internet may be a mould-breaking new medium but, as with all that came before it, somebody has to pay—and that usually means, one way or another, users.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Managing professional services

Like herding cats

Apr 18th 2002
From The Economist print edition

How to get prima donnas to perform

WHEN Harvard Business School half-a-dozen years ago launched a programme on leadership in professional-service firms, frustrated students found little background reading. Nowadays, to judge by business-publishers' lists, managing professionals is a hot topic. But no book yet covers the hottest topic of all: the lessons to be drawn from Andersen's fate after Enron.

Companies now buy brainpower from suppliers in the way they have long bought spare parts or raw materials, argue Jay Lorsch, of Harvard Business School, and Tom Tierney, a former chief executive of Bain, a consultancy, in a new book*. Hence the huge growth in the number of professional-service firms—accountants, advertising agencies, law firms, headhunters and consultancies of all kinds. In the 1990s, America acquired a net 2,600 new accounting firms and 2,300 advertising firms. Scale has also grown (although the authors believe that it rarely increases profits), as have complexity and global reach.

Managing professionals is notoriously like herding cats. Patrick McKenna and David Maister, authors of another new book†, point out that they resist accountability (saying it will thwart their creativity); they hate the regimentation of meetings; and their professional scepticism trains them to dig holes in constructive new ideas.

But persuading prima donnas to cooperate is easy compared with the task of creating effective management. Whereas the chief executive of a typical large company can redesign the strategy or even the whole firm almost single-handed, power in professional-service firms is more diffuse, according to Messrs Lorsch and Tierney. Management positions are mostly part-time. Chief executives are often elected. Partners—many firms are partnerships, often of thousands—have their say through complex networks of committees.

The danger, say Messrs Lorsch and Tierney, who finished their book while Andersen was still a respected name, is that participation can dilute responsibility. “If everyone is in charge, no one's in charge.” When Paul Volcker arrived to unscramble the Andersen mess, he found managerial disarray. It was made worse by a structure that devolved authority to 84 separately incorporated national units, and by an absence of a clear role for Joseph Berardino, who resigned as chief executive of Andersen Worldwide last month. The question those Harvard Business School students ought to ask is: can such a structure work in bad times? After all, in good times, almost anything works.

* “Aligning the Stars: Organizing Professionals to Win”. Harvard Business School Press

† “First Among Equals: How to Manage a Group of Professionals”. The Free Press

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

German takeovers

Bun fight

Apr 18th 2002 | FRANKFURT
From The Economist print edition

Italy's leading pasta maker tilts at Germany's master baker

MAN cannot live by bread alone, but the Germans do their best: they are Europe's champion bread-eaters, each chewing through the equivalent of four slices plus a roll a day. They buy more from Heiner Kamps than from anybody else. In recent years, his company, Kamps, has bought one local bakery after another, plus Wendeln, Germany's biggest industrial baker, becoming Europe's leading bread-and-cakes group. With sales of *euro*1.7 billion ($1.5 billion) in 2001, it holds top spot in the Netherlands as well as Germany, and it owns 49% of Harry's, a French baker. Now Kamps itself may be gobbled up. This week Barilla, an Italian family firm that is the world's biggest pasta producer, launched a takeover bid that values Kamps at *euro*993m.

Although Mr Kamps rejected the offer, Barilla may win his firm anyway. Kamps's shares are widely held—top managers own only 15%—and investors have had a lean time lately. Although Kamps's shares have risen in recent months, this largely reflects bid speculation. Barilla says that it owns only just over 2% of Kamps, despite suspicions that it may have control of more. Analysts are speculating about the emergence of a white knight, perhaps Sara Lee, an American food-to-clothing group.

Two years ago, Barilla's offer of *euro*12 per share would have looked derisory. Mr Kamps was a German stockmarket star, a baker who could charm analysts and the media as well as any Internet geek. Floated in April 1998 at about *euro*4, Kamps's shares topped *euro*44 in February 2000. Its followers were thrilled by the notion of consolidating a fragmented old industry. But the company took on a lot of debt to pay for its acquisitions: although this has been reduced to *euro*770m, interest costs still weigh down profits. Promised synergies among acquisitions have been slow to emerge. Bread may be a staple in German kitchens, but not, apparently, on the stockmarket.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Food flavourings

Vanilla thriller

Apr 18th 2002
From The Economist print edition

The market for the world's most important food flavouring is in turmoil

TROPICAL storms in 2000 and 2001 badly damaged Madagascar's hugely valuable vanilla production. And with the country that produces far more of the stuff than any other also in political turmoil after a contested presidential election, the industry's problems seem likely to worsen. The announcement on April 15th that Coca-Cola plans to launch a vanilla-flavoured drink brought some cheer. But although the new drink should be good for Coke, it may lead to only a limited increase in demand for vanilla, since normal Coke already contains the flavouring.

The best-quality vanilla pods can fetch thousands of dollars a kilo, but the stuff more typically sells for around $200 a kilo, five times the level before storms ravaged crops and stocks. As prices have risen, food manufacturers have turned to cheaper vanilla flavours that are produced artificially; these now account for around 95% of the total market. But there is a tension between low-grade chemical vanillas and their better-quality natural competitors.

One problem is the complex series of rules governing what can be labelled as “natural vanilla”. Vanillin, the main flavour of vanilla, can be produced in a laboratory, but it must then be classified as an artificial additive. Picky consumers tend to avoid the chemical version, preferring natural flavours. Thus, food companies have looked for ways to make “natural” vanilla without relying on actual vanilla pods.

Pure crystals of vanillin can be produced biologically by bacteria that munch plant waste. Only recently, however, have a few such processes been commercialised. Zylepsis, a private British company, has pioneered vanillin production using bugs and has obtained high-quality results, although its product remains relatively expensive. It also confounds current labelling rules. Zylepsis's vanillin is a natural product, rather than a chemical one, but it does not qualify as such in America because it contains no actual vanilla extract. Even more confusing, food companies often want to blend fully natural vanilla with the artificially produced, though technically natural, kind. How should such a hybrid be described?

Asian producers, notably from China, have taken advantage of this confusion to flood the world market with cheap synthetic vanillin that sells for as little as $15 a kilo. Although their vanillin is of the chemical variety, labels routinely describe the product as “natural”, and only costly forensic work by competitors can prove otherwise. Food companies looking to save costs are often tempted to buy the cheap Chinese product—despite suspicions that it is not the real thing.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Russian oil

Gluttons for punishment?

Apr 18th 2002 | MOSCOW
From The Economist print edition

A new deal by BP highlights Russia's new image

LESS than three years ago, BP was licking $200m-worth of wounds in Russia, after a questionable bankruptcy case had deprived it of its stake in one of the country's largest oilfields. The British giant's lobbyists poured barrels of vitriol on the two leading personalities on the other side, Simon Kukes of the TNK oil company, and Mikhail Friedman of its parent, Alfa Group. Now things look very different. This week, BP announced that it would spend around $375m to increase its stake in Sidanco, a big oil company owned by Alfa and some people associated with it, from 10% to 25%.

What has changed? Both sides have learnt their lesson. The Russians are keener on respectability, rather than simply using their country's infamously flexible legal system to grab assets from the gullible. Publicly quoted companies have found that even a semblance of good corporate governance has an electrifying effect on the value of their shares. Many of the tycoons who run Russian oil companies are keen to cash out once the price is right. Their businesses are mostly better run than before.

For its part, BP has been approaching Russia differently. It has already gained management control at Sidanco, so it knows what it is letting itself in for. Being the minority partner in any Russian enterprise often ends in tears. BP is also paying a lot less than it did in the past. This week's deal values Sidanco at around $2.5 billion, compared with the $5 billion it was supposedly worth when BP took its initial stake in 1997.

Despite all the upheavals of the past decade, and the country's huge problems, Russia's image has changed too. Compared with Venezuela, another big oil producer, it seems positively tranquil. A high oil price, and the Kremlin's willingness to wiggle round the production restraints agreed with the Organisation of the Petroleum Exporting Countries (OPEC), add to the attraction. More deals are surely in the pipeline.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Face value

Messier than ever

Apr 18th 2002
From The Economist print edition

Can Vivendi Universal's boss survive grave doubts about his leadership credentials?

"THE media burns what it yesterday adored." So wrote Jean-Marie Messier in his autobiography, "j6m.com", penned in 2000 at the tender age of 43. He was referring then to the implosion of the dotcom market, but he might as well have been writing about himself. The recent souring of sentiment towards Mr Messier and Vivendi Universal, the media conglomerate he runs, this week turned acid. As his company's share price tumbled, and amid management turmoil at Canal Plus, its loss-making pay-television division, the usually placid French press began to question his survival. On April 16th, in a bid to get a grip on Canal Plus, and to the consternation of defenders of French culture, Mr Messier sacked its chief, Pierre Lescure, a popular icon of French film and television.

So far this year, the bad news has just kept on coming. In March, Vivendi Universal revealed a net loss for 2001 of a staggering *euro*13.6 billion ($12.2 billion), chiefly due to goodwill charges arising from the collapse in the value of acquisitions made during boom times. Last week, another of Mr Messier's lieutenants at Canal Plus, Denis Olivennes, quit over an unexplained "series of disagreements". This week, even before he fired Mr Lescure, Vivendi's boss was fending off criticism of a new stock-option plan.

By several measures, however, Mr Messier ought to be lionised in France. He turned a turgid French water and sewage-treatment utility, the Compagnie Générale des Eaux, into a world media giant rivalling the likes of Disney. When he splashed out on Universal Studios and Universal Music Group in 2000, French politicians rushed to congratulate him in person for the fact that, as he put it, "the French flag had been planted on American soil." He is one of a younger generation of internationally minded French managers who have broken out of a staid, inward-looking corporate culture.

Moreover, not all of Vivendi's current troubles can fairly be blamed on Mr Messier on his own. All media groups seem to be in trouble. Vivendi is neither the most indebted, nor the most battered by the markets. Mr Messier may have overpaid for media assets, but so did everybody else. He may have placed heroic faith in the promise of the Internet and wireless technology to deliver content, but he was not alone in doing so.

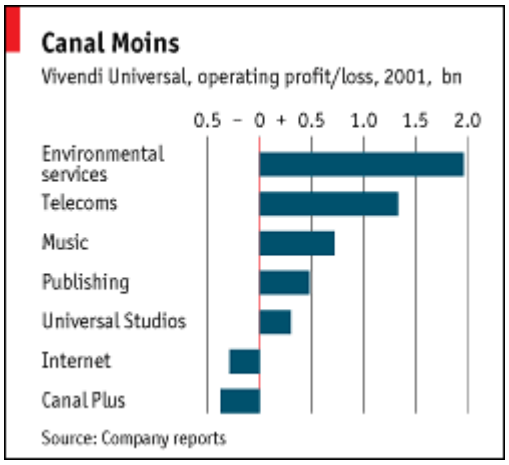
The most justifiable worry about Mr Messier, rather, is whether he is the right man for Vivendi now. Are the skills that he used to build his empire the same ones needed to integrate the group in quite different economic times?

Codename: Cock-up

An investment banker with Lazard in Paris for six years after leaving the civil service, Mr Messier gets his kicks from doing deals. He compares the thrill from securing a last-minute deal to France scoring a late goal in the final of the European football championship in 2000. He relishes the late-night meetings, the secret codenames, the intrigue, the bluff. "The game is so exciting!" he once wrote. The son of a Grenoble accountant, and grandson of a chauffeur to a local prefect and of a church bell-ringer, he derives his ambition in part from his relatively modest background. His vision for Vivendi was nothing if not bold. He spun off its dull origins, environmental services, into a separate group and went on a shopping spree to convert what was left into a dazzling, America-oriented media outfit.

As the Catholic father of a large family, and a graduate from both of France's top post-graduate schools, Mr Messier himself embodies this corporate transformation. Although he denies being seduced by showbusiness, at least one rival media boss thinks that it was the allure of glamour, the chance of dining with the stars, as much as commercial logic, that pulled him to Hollywood. Certainly, Mr Messier confesses to delight at his first invitation to an exclusive gathering of media moguls: “Shit, they're taking us seriously!”

Today's task, however, is less glamorous. Mr Messier needs to show that there is logic, and value, behind the frenzy of all those acquisitions, which range from an educational publisher (Houghton Mifflin) to a film and TV company (USA Networks' entertainment assets), and that they fit with his mobile-phone and Internet interests in Europe. The daily grind of evaluating operating performance, and shedding peripheral assets, is a lot less exciting than empire-building. It also requires softer qualities, to do with soothing egos, motivating colleagues and inspiring loyalty.



Yet the departure of Messrs Olivennes and Lescure, who endured a public dressing-down recently by Vivendi's boss for the poor performance of Canal Plus, suggests that such qualities may not be among Mr Messier's strongest points. After his humiliating dismissal this week, Mr Lescure reportedly accused Mr Messier of “megalomania”. The “j6m” of his autobiography, which Mr Messier—to his credit—adopts with humour, refers to his nickname on “Les Guignols des Infos”, a satirical Canal Plus TV show: Jean-Marie Messier *Moi-Même, Maître du Monde* (Myself, Master of the World).

What Mr Messier has taken on would daunt anybody. His is not only a conglomerate that deals with both engineers and film stars, but one straddling France and America. Were he a seller of cars or cornflakes, the collision of corporate cultures would be hard enough to manage. But culture is his trade. And the French are especially prickly about defending theirs from American imperialism.

This leaves Mr Messier with a particular problem. In France, he is too American: an emblem of the “Hollywoodisation” of French culture. In America, where he has moved with his family into a $17.5m Park Avenue apartment, he is too French. In Hollywood, he is simply an outsider. Even if he pulls through this latest saga with his job intact, Mr Messier has nobody to blame for the colossal task he faces but himself.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Consumer finance in Asia

The new spendthrifts

Apr 18th 2002 | HONG KONG
From The Economist print edition

Reuters

Asia's consumers are at last starting to spend and borrow. A boon for Asia's banks?

POLICE in the southern Chinese province of Guangdong bust another piracy racket this month, seizing 17,126 phoney Visa and MasterCard credit cards. That Guangdong's savvy pirates are shifting resources from faking Gucci bags and Viagra tablets to consumer credit is telling. Rupert Keeley, regional head of the real Visa, says that developing East Asia is, and will remain for years, Visa's fastest-growing market. And the trend is not confined to plastic. Home mortgages, car loans, unsecured credit: all forms of consumer finance are soaring, albeit from a small base.

It adds up to a seismic shift in the region's economies, banks and consumer patterns. For decades, the "Asian" model of export-led development was based on high rates of saving and investment, with consumption suppressed. China's saving rate, at about 40%, is one of the highest in the world, and other East and South-East Asian countries are not far behind.

Household thrift has underwritten Asian firms' profligacy, which in a nutshell explains the mess at many Asian banks. Across the region, banks used to throw their deposits at conglomerates. Vast swathes of these corporate debts have been in default ever since the financial crisis of 1997-98. Even in China, which avoided the brunt of the region's troubles at that time, some four-fifths of state banks' outstanding loans are to state-owned enterprises, and about half of these loans are, by most accounts, bad.

Hence the banks' current enthusiasm for shifting attention from firms to consumers, a trend that Salomon Smith Barney, an American investment bank, calls "the single most powerful theme in Asian financial services". As a rule, consumers are less risky and more profitable customers for banks. Credit cards, for example, usually generate returns on assets above 5%, whereas corporate guarantees produce less than 0.2%. Since 1998 China's central bank has actively encouraged banks to go after consumers, with some success. Outstanding consumer loans in China rose 25-fold between 1997 and 2000.

Where's the catch?

So much for the supposed cultural barriers to Asians borrowing more. McKinsey, a consultancy, found that only 38% of Chinese consider it "unwise to borrow money except for a house", down from 52% last year. Young Asians, in particular, appear to have an open mind and they, not the older generation, are

the target market, says Yuwa Hedrick-Wong, Asian economist at MasterCard. Peddling to them is challenging, he adds, precisely because they are savvier than their purchasing power would suggest. It can be done, though. In Hong Kong, Aeon, a consumer-finance company, has made a killing by issuing “Hello Kitty” credit cards to teenage girls.

The real obstacles lie elsewhere. The most immediate ones, says Visa's Mr Keeley, are bad payment infrastructures and limited card acceptance by vendors. In the whole of China, only 40,000 merchants are equipped to swipe a credit card. As yet, no national standards exist for magnetic stripes and account numbering, so almost all of the 300m or so cards in China are used only as cash-machine or debit cards in the issuing bank's home city. But there is progress. Last month Dai Xianglong, the central-bank governor, announced that China is rolling out a national payment network, due to be completed by 2005, when foreign banks will also be allowed to issue domestic-currency cards to Chinese customers.

Another problem is a dearth of credit information. The most advanced markets for consumer finance, such as America, Britain and Canada, have credit bureaus through which banks share information about their customers. With these bureaus, banks can find out not only whether a prospective borrower has already defaulted on a debt, but also how well and promptly he has serviced his liabilities.

In developing East Asia, only Taiwan and South Korea already have similar bureaus set up. Singapore is establishing one, and Shanghai and Shenzhen, two of China's wealthiest cities, have just pioneered theirs. Across most of Asia, however, banks are still in the dark about people walking into their branches. Hong Kong, for instance, has arrangements only for the voluntary sharing of blacklists by banks.

The problem is not so much that this stunts market growth—credit cards have boomed in Hong Kong—but that it tempts banks once again to lend blindly and recklessly, only this time not to companies but to individuals. Hong Kong now has the highest default rate on outstanding credit-card debt in the world. Worse, says John Ott, at McKinsey, the average Hong Kong consumer in default owes 55 months of his income—American defaulters, by comparison, owe an average of 21 months. The problem has hit Hong Kong's banks “like a tsunami,” says Mr Ott, because they were unaware of how much people had borrowed. The same, he predicts, will happen to other banks in Asia.

Indeed, the issue goes beyond credit bureaus. Asia's banks, as well as societies, are new to a consumer-driven culture. Even if credit histories and customer profiles became available overnight, many bank managers would not know what to do with this information, says Mr Hedrick-Wong. Legal systems, too, will be out of their depth—Asia still has few small-claims courts, for instance, and few repo men, at least of the legal sort. Asia's consumers are readier for a culture change than are its banks and institutions.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com FINANCE & ECONOMICS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

South Korean consumers

Plastic bubble

Apr 18th 2002 | SEOUL
From The Economist print edition

Consumer credit fuels South Korea's boom

NO LONGER are the *chaebol*, South Korea's conglomerates, the country's biggest borrowers. After the economic collapse of 1997-98, the government forced the *chaebol* to restructure and slash debt, and urged the banks to lend elsewhere. That helped smaller firms in thriving service industries. But it also triggered an explosion in retail lending. At 350 trillion won ($265 billion), loans to individuals and households now account for around half of Korean bank and non-bank lending. Since the end of December alone, loans have grown by over 12%. New credit that is driving demand, says Christopher Wood of CLSA in Hong Kong, is the “kicker” that has sent share prices up by 81% in the past year.

The sheer speed of this loan growth raises questions about South Korea's consumers and about the economy's continuing growth. The biggest doubts concern credit cards. Koreans used plastic for 443 trillion won of purchases and cash advances last year. That figure has risen by 90% a year since 1998. According to McKinsey, the number of cards per user has gone from 1.8 to four in the past two years.

Tax breaks on transactions have encouraged Koreans to use credit cards more—a trick that has brought a wider swathe of activity into the official economy, boosting tax revenues. But the growth in swipe ‘n' carry spending has also been driven by banks and other lenders looking for new business. Non-banks, including arms of such *chaebol* as LG and Samsung, have been especially aggressive, issuing cards to youngsters and even offering them in the street. Alarmingly, says the country's non-bank finance association, three-fifths of credit-card transactions are cash advances rather than purchases.

Among other measures to prevent a credit-card bubble, regulators want lenders to bring down the cash-advance ratio. They plan to tighten the rules over the next few months, by banning street issuers and holding non-banks to the same provisioning rules that banks must follow on delinquent credit-card debts. From July 1st issuers will also have to see proof of income before giving cards to young people.

Despite the froth, Keith Irving, a bank analyst at Merrill Lynch in Hong Kong, is unworried. He points out that banks' credit-card loans still account for only 15% of all retail borrowing. And whereas delinquency rates on cards are nearly twice as high as in the United States, the delinquency ratio for overall retail loans is only half America's. That Koreans use their homes to back almost all other retail borrowing gives Mr Irving comfort.

Mr Irving's chief concern is the health of Korean banks, not the economy in general. Even if delinquency rates remain low, consumers might have to tighten their belts to pay back debts, denting growth. Andy Xie at Morgan Stanley in Hong Kong says that household indebtedness may reach 70% of GDP by the end of this year if retail lending does not abate.

Such a rapid rise in debt levels will weigh even heavier if South Korea raises interest rates. The central bank's governor has already hinted that it may do so this summer. Consumer-price inflation began to pick up in the first two months of the year, and property prices are rising strongly. Before long, South Korea's consumers will have to rein back, at least a little. With luck, a rebound in capital spending and exports will allow a balanced expansion to continue as they do so.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The European Central Bank

Position filled

Apr 18th 2002 | FRANKFURT
From The Economist print edition

A new deputy president for the ECB—and more debate about its role

Get article background

LAST weekend in Spain the European Union's finance ministers declared—with one abstention—that Lucas Papademos, governor of the Bank of Greece, should succeed France's Christian Noyer as deputy president of the European Central Bank (ECB) on June 1st. The surly abstainer was Belgium, which held out for its candidate, Paul de Grauwe, an economist—though mainly to put down a marker for a future Benelux candidate.

Mr Papademos fits the job's needs, at least. He has academic credentials: a monetary economist, he studied at MIT and taught at Columbia University in New York. He has proved an adept central banker, too: not many years ago, the odds against Greek qualification for membership of Europe's single currency were laughably long.

Choosing Mr Papademos was easy compared with another item on the agenda: how Europe's financial institutions and markets should be supervised, and in particular the role central banks, including the ECB, should play. Before the meeting, Germany's finance minister, Hans Eichel, and Britain's Gordon Brown (whose country is not even a member of the euro) circulated a letter arguing that supervision should stay at national level. European co-ordinating arrangements should be under ministerial control; a banking committee, for example, should be chaired by a finance-ministry representative.

So far the ECB has made two points in the debate. One is that central banks should be prudential supervisors of banks, so that they can provide liquidity if necessary. It is less concerned about regulation of insurers and securities firms. Contrast this with Britain, where all financial supervision is under one roof outside the central bank, and Germany, which is setting up a similar system. The other is that bank supervision should be handled mainly by national authorities, and not by the ECB itself. On that at least, the ECB agrees with the two ministers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

America and the IMF/World Bank

What leadership?

Apr 18th 2002 | WASHINGTON, DC
From The Economist print edition

Whatever happened to George Bush's shake-up of the Bretton Woods twins?

Get article background

AP

Grant or loan?

IN HIS first big speech on the International Monetary Fund and World Bank last June, Paul O'Neill, America's Treasury secretary, did not mince his words. “We have too little to show” for the “hundreds of billions of dollars” spent in the developing world, he said. “It is clear we have a major repair and restoration job before us.” Almost a year on, as the world's finance ministers gather for the spring meetings of the IMF and World Bank this weekend, American rhetoric has bred little action.

The desire of George Bush's team to revamp the IMF was inspired by what it saw as the mistakes of Bill Clinton's administration. The Fund, micromanaged by the Clinton Treasury, was said to have focused too much on crisis management and bail-outs for countries in trouble in the late 1990s. Mr O'Neill wanted a more hands-off approach, and a shift of focus from big loan packages towards preventing crises.

Laudable goals, but they have proved hard to put into practice. The Bush Treasury supported a large and ill-fated loan package for Argentina last August. Geopolitical concerns also led to American support for Turkey's $16 billion bail-out this year. Even more telling, the Bush Treasury is not keen to make structural reforms to the Fund that would limit future bail-outs. Many European governments favour explicit limits laying out, in advance, how much a country may borrow. The main opponent of such a change is the United States. Although Mr O'Neill's people are less involved in the day-to-day operations of the Fund than their predecessors were, they do not want to give up the option of using the Fund for strategic ends.

America shows similar inconsistencies over countries that default on their debts. Last year, Mr O'Neill spoke favourably about creating some kind of international bankruptcy law. Prompted in part by this perception of American support, the Fund's top brass began publicly touting such a plan. Yet earlier this month, John Taylor, the top international man at the Treasury, shot down the latest version of the plan only a day after it had been floated. Mr Taylor put forward instead a modest proposal that has been around for years: borrowing countries should be encouraged to include clauses in bond contracts that make them easier to reschedule. In a comic twist, a third Treasury official contradicted Mr Taylor days later, by suggesting that the Fund's approach was worth pursuing after all. Other governments are at a loss as to what America's position on sovereign bankruptcy is.

Even when it has clear goals, the Bush Treasury seems incapable of promoting them with skill or grace. Take, for instance, the question of World Bank lending to the poorest countries. The Bush team wants the International Development Association (IDA), the World Bank's soft-loan arm, to give money to the poorest, not to lend it. The president himself argued last summer for half of those funds to go to the poorest in the form of grants. The Europeans are sceptical. Some believe that loans instil better behaviour in poor countries than do grants; others suspect that America's idea will eventually starve the Bank of resources. They want more like 10% of IDA money to be in the form of grants.

The row has turned nasty. America refuses to chip in to the latest replenishment of IDA until there is agreement on the grants question. Yet Mr O'Neill recently described as “stupid” a compromise proposal floated by the British that would allow poor countries to choose between a subsidised loan and a smaller amount of grant money. A deal is possible at this weekend's gathering, but it is likely to be less than half

what the Bush administration originally wanted, and it will have been won at the cost of much acrimony.

Many veterans of international economic diplomacy are dismissive of the Bush Treasury. “Incredibly inept,” says one. Still, so far the impact has not been great. The worry is what will happen in the next international financial crisis. Then the world will need the economic leadership that only America can provide. The Bush Treasury has yet to demonstrate that it will be up to it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Russian audits

Brother's keeper?

Apr 18th 2002 | MOSCOW
From The Economist print edition

A headache for a bean-counter

ANY investor who believes that a western audit alone can make Russian companies more honest should stick to playing the game Monopoly. As foreign accounting firms in Moscow (and everywhere else) insist, they rely on the numbers that their clients give them. Their job, more or less, is to certify that it all adds up, not that it is really true.

Still, the way in which corrupt owners, managers and others in Russia have used foreign auditors (and lawyers, consultants and bankers) to confer spurious respectability is little short of scandalous. Investors have lost billions of dollars in Russia. But the cost in cash and lost reputation to the professional-services firms has been minimal.

Now a foreign investor, Hermitage, the biggest outside portfolio investor in Russia, is suing PricewaterhouseCoopers (PwC) for its role in auditing Gazprom, a giant gas company that for most of the past decade has been spectacularly mismanaged. In particular, billions of dollars in profits and assets have flowed to mysterious companies widely assumed, and in one case proved, to be held by friends and relatives of Gazprom's bosses.

PwC's annual audits mostly overlooked this. As the scandal hotted up, PwC conducted an investigation into its own work. It found nothing much wrong, even though the Russian government's own report had found plenty amiss. The auditors have attracted criticism before, including for over-friendly audits of the Russian central bank, which had the habit of parking undisclosed reserves offshore to fool the International Monetary Fund.

Gazprom is now under new managers, who are trying to clean the place up, backed by President Vladimir Putin himself. The new bosses, who do not resent Hermitage's lawsuit, may dump PwC, which denies any wrongdoing and says it looks forward to its day in court.

PricewaterhouseCoopers made plenty of money in Russia from its cosy relationships with the rich and powerful of the old regime. This lawsuit, which threatens both financial damages and a blow to the firm's reputation, highlights the risks of being seen to be too cosy.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Enron's ghost

Recharging

Apr 18th 2002 | NEW YORK
From The Economist print edition

Maybe there was something to Enron after all

Get article background

A SWISS-OWNED bank with global aspirations, UBS Warburg, has lately flown in the face of conventional wisdom. Not only is it out to prove that money can be made from the Internet. It also wants to make the point using a business that once sat at the heart of Enron's operations—all widely reckoned, in the public imagination, to be shams. UBS Warburg happens to think that the bust firm's energy-trading operations, mainly via the Internet, are a very good business.

The bank won the business at auction on February 11th by offering no cash—just one-third of future profits (if any) to Enron's creditors. In return, it got 635 employees and office space in Enron's old headquarters, a Houston skyscraper. Business, admittedly, had pretty much ceased on November 27th, when Enron lost its investment-grade credit rating, raising doubts that it would honour its trades.

According to Enron's own accounting, profits from Internet trading in the 12 months before the collapse were $2.3 billion: that would have made the division, by itself, one of the 50 most profitable companies in America. Wary, UBS sent legions of people to scour the books. It concluded there was indeed evidence of tremendous returns: Enron's trading operations were very good, notably in electricity and natural gas.

UBS Warburg's chief executive, John Costas, has a background in electronic markets, having helped to automate trading in government securities a decade ago. He says that Enron operated in many clever ways that a Wall Street firm might not think of. For instance, it allowed lots of different customers to sit in on the same trade. Even when trading with each other, they all went through Enron. The result, for Enron, was a big rise in market share.

Enron earned money on the spread between buyers and sellers, even if it was tiny. And, says Art Gelber, of Gelber & Associates, an energy advisory firm in Houston, the information that Enron gleaned from seeing so many trades allowed it to profit for its own book (this is legal in these markets). In the days following Enron's collapse, other participants, notably the New York Mercantile Exchange and the Intercontinental Exchange, a two-year-old electronic marketplace, kept energy markets working. Each saw a sharp rise in business, thanks to Enron's collapse.

Still, bid-and-offer spreads widened, says Mr Costas, creating the opportunity for the old business's return. UBS's credit standing has made the business, now known as UBSWenergy.com, viable again. Slowly, customers are coming back. At its peak, Enron's trading business had 300 main clients. Winning them back involves signing fat agreements thrashed out by lawyers. So far, about 30 have returned. On several days recently, UBS has traded as many natural-gas contracts as the New York Merc. Now, Mr Costas says, the business is covering the cost of its staff—a step forward. This week alone, the number of clients may double; UBS hopes that most of the 300 former clients will soon return.

A long shot, particularly since many of Enron's most capable employees have scattered. Still, among those that remain, what once was arrogance is now a sense of having something to prove.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

BBVA

Offshore mysteries

Apr 18th 2002 | MADRID
From The Economist print edition

Strange goings-on uncovered at Spain's second-biggest bank

WHAT could in a matter of days turn one of Spain's most respected bankers into a pariah of its financial community? Try an addiction to tucking away bank funds in secret offshore accounts over 13 years, for a purpose you have trouble explaining to your central bank when asked. Top it off with a criminal investigation of the affair, and you will see more than a few backs turned at cocktail parties.

In December Emilio Ybarra, head of an old Basque clan of industrialists and financiers, resigned unexpectedly as co-chairman of Banco Bilbao Vizcaya Argentaria (BBVA). He was followed out by the chief executive, Pedro Luis Uriarte. At the time, few knew of a Bank of Spain investigation into secret accounts kept by Banco Bilbao Vizcaya in Jersey, Liechtenstein and Switzerland before it merged in 2000 with Argentaria, formerly state-owned. The accounts, which hid gains made by the bank from trading in its own shares, were closed in the year of the merger, and *euro*225m ($207m) from them were declared as an extraordinary gain in that year's results.

Now Baltasar Garzon, the investigating magistrate who once tried to bring Chile's Augusto Pinochet to trial, has initiated a criminal inquiry into the secret accounts, with 16 of the bank's former directors implicated. The investigation could last for 18 months, with the first witnesses called for questioning this week.

BBVA has acknowledged that part of the money was used to finance the political campaign of Venezuela's (temporarily ex-) president, Hugo Chavez. About $20m was transferred two years ago to an American pension fund for 22 directors from Banco Bilbao Vizcaya's former board, without the knowledge of other directors.

Mr. Ybarra's exit leaves Francisco Gonzalez, former chairman of Argentaria, as the sole chairman of BBVA. This week two more prominent members of BBVA's board stepped down: Alfonso Cortina, chairman of Repsol, and Oscar Fanjul, a former chairman. Were they also beneficiaries of the directors' clandestine pension fund?

Aside from the changes to BBVA's board and a drop in its share price, the affair may yet throw only a passing shadow over the bank. Still, exactly why Mr Ybarra, who commanded great respect in financial circles, risked his reputation and that of his former bank remains a mystery, one that Mr Garzon is bent on solving.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

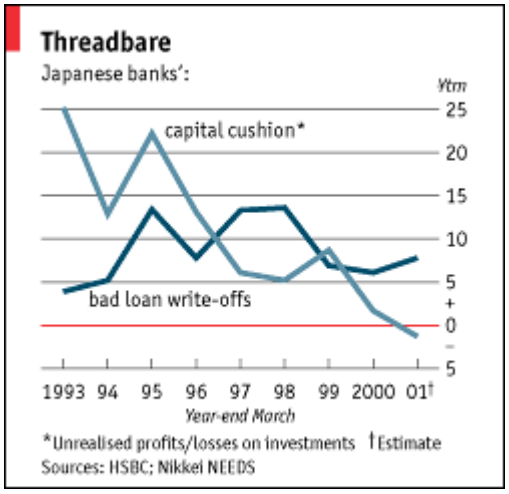
Japan's banks

Surreal

Apr 18th 2002 | TOKYO
From The Economist print edition

More bad debts, and more tricks for disguising them

Get article background



NOT enough to restore the seriously damaged credibility of Japan's banks, said Standard & Poor's, a rating agency, after the results of a special audit of 13 big banks by the Financial Services Agency (FSA) were announced on April 12th. Down went Japan's credit rating yet another notch.

According to the FSA, losses from the disposal of bad loans in the year to March 31st came to ¥7.8 trillion ($60 billion), double banks' operating profits and a fifth more than targets announced last November. But this is not that reassuring, because the five-month special inspection, designed to help banks correctly categorise their biggest problem loans, covered only a fraction of their total bad debts of about ¥150 trillion. The regulators, who want banks to dispose of most of their bad loans over the next two years, have failed to come up with a strategy to help them do it, including a government injection of capital. Bad loans have eaten up much of banks' capital, with new dud loans emerging by the day.

Things could be worse. On April 1st the government lifted its blanket guarantee on bank deposits. The darker predictions of a run on banks were not borne out—thanks largely to the government's frantic efforts to boost banks' equity portfolios, by propping up the stockmarkets through stricter rules on short-selling.

Still, banks' efforts to survive the special audit could store up trouble for the future. The banks were forced to downgrade their assessments of almost half the 150 big problem borrowers reviewed in the audit. Some 34 companies were reclassified as being “in danger of bankruptcy”, a category that requires banks to provision against 70% of the value of a loan rather than only 15%.

However, instead of weeding out the weakest borrowers, banks are extending fresh financial aid in return for tepid reforms by borrowers which, in turn, allow banks to bump up downgraded companies into healthier categories of borrowers. Of the dozen or so big construction companies in trouble, only three have gone under since the government announced a renewed commitment to reform last year. The rest limp on, with ever more help from banks. For instance, Sumitomo Mitsui Bank, which is trying to get a trio of troubled builders to merge, is expected to sweeten the deal by offering more financial aid.

“For bank managers, debt-for-equity swaps are a magic wand”

Worse, banks have hit on a formula for turning bad debts into shares and hiding them in their equity portfolios. Debt-for-equity swaps enable banks to exchange a portion of their loans to heavily indebted companies for ordinary or preferred shares. This helps to lower banks' bad-loan totals, even though their exposure to borrowers remains unchanged. Unlike debt forgiveness, which creates losses for banks as they write down bad debt, debt-for-equity swaps cost nothing at all. What is more, since the dud borrowers now have less debt, banks can reclassify the rest of their loans and reduce reserves set against them. “For bank managers, debt-for-equity swaps are a magic wand,” says Hironari Nozaki of HSBC Securities.

Weak construction companies that have already had chunks of their debt waived in the past are likely to be the biggest beneficiaries of debt-for-equity swaps. Banks fear a backlash from shareholders if they

offer any more debt waivers. Consider Haseko, a wobbly construction company that received a ¥355 billion debt waiver in 1999 and yet is still struggling to repay ¥540 billion of debts. Banks are planning to swap ¥150 billion of Haseko's debt for ordinary and preferred shares. Yet executives at Haseko are thinking of slashing shareholders' equity in the next three years, a move that would wipe out much of the value of the swapped ordinary shares. In other words, the scheme could end up merely as a more risky and opaque form of debt forgiveness, taking place in two stages rather than one.

The biggest reason that dud loans are not simply being written off is that banks are running out of money needed for large write-offs. Banks are badly undercapitalised. Officially, the big banks have about ¥19 trillion of core capital, meaning capital-adequacy ratios of about 10%, easily above the 8% ratio that international rules require. But, say analysts, a more prudent assessment would subtract public funds received four years ago, deferred taxes, and “profits” from property revaluations. That would leave the banks with only some ¥5 trillion, or an average capital-adequacy ratio of about 2%.

The minister in charge of financial reform, Hakuo Yanagisawa, denies that banks need any more injections of public money. With fresh losses uncovered by the special inspections, banks have therefore scrambled to raise new capital, mostly from borrowers. This leads to double-gearing, with banks and their equally weak borrowers propping one another up by holding each other's shares or debt. The practice raises the danger of a single bankruptcy triggering others. Especially worrying is the relationship between banks and life insurers, which are also in dire financial straits. Mitsuhiro Fukao, a professor at Keio University, reckons that by last March banks had lent life insurers at least ¥2 trillion; and life insurers had lent banks about ¥5 trillion and held an equivalent amount of bank shares. This means that a bankruptcy of a big life insurer, which may not be far away, could bring down some of the banks, or vice versa.

That special inspections were needed at all has undermined the credibility of previous inspections—and of the regulator that conducted them. Just over a year ago, the FSA had suggested to one mid-sized bank, which had increased its bad-loan reserves and so created large losses, that it was being a little too aggressive in its clean-up. The FSA has now changed its tune, albeit not enough. A recently leaked memo from the Ministry of Finance and the FSA concentrates on how to present the banks' bad-loan problems to the public, and on how to manipulate stockmarkets. Bureaucrats, it seems, are still intent on fiddling, rather than tackling the roots of Japan's financial problems.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

More bubble and squeak

Apr 18th 2002
From The Economist print edition

A modern central bank needs to watch asset prices as well as traditional inflation

ASK a central banker what his main job is, and he (more rarely, she) will say it is to maintain price stability. A growing number of central banks have adopted formal targets for inflation. Even so, a debate has recently been raging about whether central banks should worry also about swings in the prices of assets not counted in most measures of inflation—notably, shares and housing. Some commentators (including *The Economist*) have argued that the Federal Reserve should have raised interest rates sooner in the late 1990s to let air out of America's stockmarket bubble and curb an unsustainable boom in investment. The issue will be discussed at a conference on asset-price bubbles on April 22nd-24th at the Federal Reserve Bank of Chicago.

Central banks already take account of changes in asset prices when forecasting inflation: if a rapid increase in share prices threatens to cause a consumer-spending boom and higher consumer-price inflation, a central bank will raise interest rates. But the conventional wisdom is that central bankers should otherwise ignore swings in asset prices. However, a paper* to be presented at next week's conference will argue that, by adjusting interest rates in response to asset-price misalignments—even when inflation remains on track—central banks can reduce the long-term volatility of both inflation and output. That the authors include Stephen Cecchetti, a former chief economist of the New York Fed, and Sushil Wadhwani, a member of the Bank of England's monetary policy committee, makes the paper of more than academic interest.

The authors do not suggest that central banks should target asset prices, but rather that, if asset prices seem out of kilter with fundamentals, they should take that into account in setting monetary policy. If, say, a rise in share prices reflects a jump in productivity growth, a central bank need not fret. But a bubble, as in Japanese shares in the late 1980s or in American technology shares in the late 1990s, suggests that a central bank should raise interest rates even if inflation is on target.

The concern with asset-price bubbles is not so much their inevitable collapse, but that the imbalances they foster may later wreak economic havoc. Soaring share prices encourage overinvestment and excessive borrowing by households and firms. These imbalances can turn a mild downturn into something nastier, causing inflation to undershoot or, worse, to turn to deflation, as in Japan. The study argues that a modest rise in interest rates above the level required to keep inflation on track would curb borrowing and overinvestment. If investors knew that monetary policy would “lean against the wind”, then bubbles might also be rarer.

Hot air?

In a previous report, the authors used three different economic models to simulate the effect of central banks responding to asset-price bubbles. In all three, although inflation undershoots its target in the short term, in the long term output and inflation prove less variable than if central banks ignore asset prices.

The new paper tackles criticisms of their earlier work. Simulations by other economists came up with different results: if central banks react to asset prices, inflation volatility actually increases. But such studies presume that policymakers respond mechanically and cannot tell whether a surge in share prices is a bubble or reflects a shift in fundamentals, such as faster productivity growth. In the latter case, raising interest rates could indeed be harmful.

The classic argument is that central banks have no more information than is available to the private sector, so they cannot spot a bubble for certain. Still, judging whether or not a rise in share prices is justified by stronger productivity growth is not so different from deciding whether potential growth has increased in order to estimate the size of the output gap—a standard input in all inflation forecasts. Monetary policy always deals in uncertainties.

In its annual report last year the Bank for International Settlements argued that the case for raising interest rates in response to a surge in asset prices does not require central banks to know more than the markets. Central banks have different incentives and a longer time horizon, so they may simply respond differently to the same information.

A second element ignored by rival economic simulations is that, if investors know that interest rates may react to a big jump in share prices, the size of a bubble and any associated borrowing binge might be limited in the first place. For instance, it might change the current perception that the Federal Reserve responds only to falls in share prices, which encourages greater risk taking.

However, those who argue that central banks should ignore asset-price bubbles seem to have won one powerful argument of late. America's financial bubble has burst, the Nasdaq has fallen by two-thirds from its peak in early 2000 and the broadest stockmarket index is down by almost 30%. Yet the economy has seen its mildest recession in decades. If bubbles can burst with so few nasty effects, central banks can indeed ignore asset prices and focus solely on inflation.

The jury is still out, however. Although America's recession has been mild—thanks mainly to rapid interest-rate cuts—it has left behind huge imbalances, including a high level of consumer borrowing and a large current-account deficit. It is likely that these imbalances will cramp the pace of recovery, and they may even tip America back into recession. If the Federal Reserve had let air out of the bubble at an earlier stage, America's economy would now be better positioned for future growth.

The trickiest issue is how a central bank would explain why it is lifting interest rates when inflation is low. If in the late 1990s the Fed's chairman, Alan Greenspan, had announced that he was raising rates to hold down share prices, a public outcry would have ensued. Bubbles are popular. Understandably, central bankers prefer to let them burst in their own good time.

---

* “Asset Prices in a Flexible Inflation Targeting Framework”, by S. Cecchetti, H. Genberg and S. Wadhwani.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Correction

Apr 18th 2002
From The Economist print edition

In the print edition of our Economics Focus last week, "A price for pain?" (April 13th), we incorrectly put the number of Union army casualties in the American civil war at 600,000. The correct figure is closer to 350,000. Our apologies.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Health in the wild

Animal doctors

Apr 18th 2002 | EDINBURGH
From The Economist print edition

Many animals seem able to treat their illnesses themselves. Humans may have a thing or two to learn from them

WHEN Cindy Engel notices that her cat, Darwin, has vomited on her carpet, she doesn't worry. Vomiting, she says, is “a healthy response to sickness”. What is more, the habit that some cats and dogs have of eating plants and then vomiting could be related to self-medicating behaviour by their ancestors. Wild cats and dogs would probably have eaten rough grasses as emetics or purgatives. Denied such material today, a cat will attack houseplants or chew wool jumpers. Dogs might also be doctoring themselves when they chew grass, eat or lick sand, soil and clay, or eat rocks or socks.

For the past decade Dr Engel, a lecturer in environmental sciences at Britain's Open University, has been collating examples of self-medicating behaviour in wild animals. She recently published a book* on the subject. In a talk at the Edinburgh Science Festival earlier this month, she explained that the idea that animals can treat themselves has been regarded with some scepticism by her colleagues in the past. But a growing number of animal behaviourists now think that wild animals can and do deal with their own medical needs.

William Karesh, of the Wildlife Conservation Society, in New York, for example, has studied the health of a wide range of wild animals, including anaconda snakes, macaws, penguins, guanacos (South American beasts related to camels), impala and buffalo. The animals were mostly in good physical condition, which is not surprising, since the weak quickly go to the wall in the wild. But blood tests showed that many had encountered nasty viral and bacterial diseases in the past—including diseases that are often fatal in captive animals, even when treated by vets. Moreover, if healthy wild animals are brought into captivity, their health often deteriorates unless great care is taken over their living conditions. Such observations suggest that wild animals can do something to keep themselves healthy that captive animals cannot.

Hearty animals

One example of self-medication was discovered in 1987. Michael Huffman and Mohamedi Seifu, working in the Mahale Mountains National Park in Tanzania, noticed that local chimpanzees suffering from intestinal worms would dose themselves with the pith of a plant called *Veronia*. This plant produces poisonous chemicals called terpenes. Its pith contains a strong enough concentration to kill gut parasites, but not so strong as to kill chimps (nor people, for that matter; locals use the pith for the same purpose).

Given that the plant is known locally as “goat-killer”, however, it seems that not all animals are as smart as chimps and humans. Some consume it indiscriminately, and succumb.

Since the *Veronia*-eating chimps were discovered, more evidence has emerged suggesting that animals often eat things for medical rather than nutritional reasons. Many species, for example, consume dirt—a behaviour known as geophagy. Historically, the preferred explanation was that soil supplies minerals such as salt. But geophagy occurs in areas where the earth is not a useful source of minerals, and also in places where minerals can be more easily obtained from certain plants that are known to be rich in them. Clearly, the animals must be getting something else out of eating earth.

The current belief is that soil—and particularly the clay in it—helps to detoxify the defensive poisons that some plants produce in an attempt to prevent themselves from being eaten. Evidence for the detoxifying nature of clay came in 1999, from an experiment carried out on macaws by James Gilardi and his colleagues at the University of California, Davis.

Macaws eat seeds containing alkaloids, a group of chemicals that has some notoriously toxic members, such as strychnine. In the wild, the birds are frequently seen perched on eroding riverbanks eating clay. Dr Gilardi fed one group of macaws a mixture of a harmless alkaloid and clay, and a second group just the alkaloid. Several hours later, the macaws that had eaten the clay had 60% less alkaloid in their bloodstreams than those that had not, suggesting that the hypothesis is correct.

Other observations also support the idea that clay is detoxifying. Towards the tropics the amount of toxic compounds in plants increases—and so does the amount of earth eaten by herbivores. Elephants lick clay from mud holes all year round, except in September when they are bingeing on fruit which, because it has evolved to be eaten, is not toxic. And the addition of clay to the diets of domestic cattle increases the amount of nutrients that they can absorb from their food by 10-20%.

Rough and ready

A third instance of animal self-medication is the use of mechanical scours to get rid of gut parasites. In 1972 Richard Wrangham, a researcher at the Gombe Stream Reserve in Tanzania, noticed that chimpanzees were eating the leaves of a tree called *Aspilia*. The chimps chose the leaves carefully by testing them in their mouths. Having chosen a leaf, a chimp would fold it into a fan and swallow it. Some of the chimps were noticed wrinkling their noses as they swallowed these leaves, suggesting the experience was unpleasant. Later, undigested leaves were found on the forest floor.

Dr Wrangham rightly guessed that the leaves had a medicinal purpose—this was, indeed, one of the earliest interpretations of a behaviour pattern as self-medication. However, he guessed wrong about what the mechanism was. His (and everybody else's) assumption was that *Aspilia* contained a drug, and this sparked more than two decades of phytochemical research to try to find out what chemical the chimps were after. But by the 1990s, chimps across Africa had been seen swallowing the leaves of 19 different species that seemed to have few suitable chemicals in common. The drug hypothesis was looking more and more dubious.

It was Dr Huffman who got to the bottom of the problem. He did so by watching what came out of the chimps, rather than concentrating on what went in. He found that the egested leaves were full of intestinal worms. The factor common to all 19 species of leaves swallowed by the chimps was that they were covered with microscopic hooks. These caught the worms and dragged them from their lodgings.

It turns out that other animals exploit rough plants, too. In the months leading up to hibernation, Alaskan brown bears leave large dung masses full of tapeworms and fibrous sharp-edged sedges. Canadian snow geese, just before they migrate, deposit huge quantities of undigested grass and tapeworms. Wolves eat grass to scour their guts of roundworms. And, according to Indian folklore, tigers, too, occasionally eat grass, probably for similar reasons.

On top of all this, just as infested animals try to cure themselves, healthy ones take precautions. According to Dr Engel, these precautions include sheep refusing to graze on freshly manured grass (the manure contains pathogens and parasites) and cattle refusing to nibble on fresh bones that might contain flesh (they will gnaw on weathered ones to obtain minerals). Of course, the cattle fed on bone meal in Britain in the early 1980s, which led to an epidemic of bovine spongiform encephalopathy (“mad-cow” disease), did not have the option of refusing.

Following that observation, Dr Engel is now particularly excited about how knowledge of the way that animals look after themselves could be used to improve the health of livestock. People might also be able to learn a thing or two—and may, indeed, already have done so. Geophagy, for example, is a common behaviour in many parts of the world. The medical stalls in African markets frequently sell tablets made of different sorts of clays, appropriate to different medical conditions.

Africans brought to the Americas as slaves continued this tradition, which gave their owners one more excuse to affect to despise them. Yet, as Dr Engel points out, Rwandan mountain gorillas eat a type of clay rather similar to kaolinite—the main ingredient of many patent medicines sold over the counter in the West for digestive complaints. Dirt can sometimes be good for you, and to be “as sick as a parrot” may, after all, be a state to be desired.

---

* “Wild Health”. Weidenfeld and Nicolson, London; 276 pages; £20 (Amazon.com).

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Evolutionary biology

No argie-bargie

Apr 18th 2002
From The Economist print edition

Immigrant ants in Europe are too polite to each other for evolutionary theorists

ANTS are famously collaborative. But they are also fiercely competitive. Workers from the same colony sacrifice their own reproductive opportunities to boost that of a single queen or, occasionally, a small ruling council. But they defend the patch on which their nest sits vigorously—often to the death. Unless, that is, they are Argentine ants in Europe.

It has been known for some time that this species, although normally aggressive in its native habitat, has relaxed into placid mutual toleration in the laid-back environment of the Mediterranean. But until Tatiana Giraud, of the University of Lausanne, and her colleagues started probing, it was not realised just how far this toleration extended.

Dr Giraud, whose work has just been published in the *Proceedings of the National Academy of Science*, collected workers from 33 Argentine-ant nests scattered along the Mediterranean coasts of Italy, France and Spain, and the Atlantic coasts of Spain and Portugal. Measured along the coastline, the extremities of this distribution are 6,000km apart.

Ants from different nests were then paired off to see if they would tolerate each other, or fight. Some 30 of the nests proved to be mutually tolerant. The other three (all from the coast of Catalonia, in Spain) were also mutually tolerant, but they fought to the death with workers from the larger group. Argentine ants in Europe seem, therefore, to belong to two separate but widespread “supercolonies”, the larger of which is the biggest collaborative society in the known living world.

Such chumminess is quite disturbing to evolutionary biologists. The willingness of worker ants to delegate reproduction to their queens was hard enough to explain until, in the 1960s, a biologist called William Hamilton came up with the idea of “kin selection”. This showed that, besides the usual way of passing genes to the next generation by mating and reproducing, an individual can increase its genetic footprint in the future by helping close relatives to raise young, so long as the cost of doing so is not too high.

That helps to explain human nepotism. But it applies particularly strongly to ants (and also to bees and wasps), because they have a peculiar form of genetic inheritance in which females (and only females) share more genes with their sisters than with their daughters. Helping your mother (ie, the colony's queen) to raise female offspring thus makes better genetic sense than breeding yourself. That, in turn, explains why the sterile workers in these species are always female.

There is, however, no theory involving kin selection that explains why unrelated neighbouring colonies should collaborate. And there is certainly no reason why unrelated colonies thousands of kilometres apart should do so. The assumption, therefore, had been that these colonies would turn out to be closely related. That might make sense for an introduced species: it could be the result of a single introduction, or rather of two introductions, one for each supercolony. But this assumption turns out to be wrong.

Dr Giraud and her colleagues looked at variations in 17 genetic markers, known as microsatellites, in ants from the various nests. Taken together, these markers form an index of how closely related the worker ants from the various nests are. The evidence suggests that Argentine ants in Europe are the result of between six and 13 unrelated pregnant queens having been introduced into the continent. Too much variety, in other words, to explain the toleration that they show to one another.

The researchers have come up with a different hypothesis, of sorts. This is that the introduced ants, now liberated from the parasites and competitors of their native land, have become abnormally abundant. In

these circumstances, aggression towards others of their species might become a positive liability if it caused them to spend too much time fighting and not enough gathering food for the nest. Dr Giraud proposes that natural selection might cause convergence in the genetic characteristics by which ants tell relatives from aliens, so as to reduce the amount of fighting. But since nobody knows precisely what those characteristics are, it is impossible to test this hypothesis.

The team does make one prediction, however: that the supercolonies will prove evolutionarily unstable. Since neighbouring nests often exchange workers, there is ample scope for queens to free-ride on the labour of unrelated individuals. In the harsh Darwinian world, such genetic mugs cannot last forever. If and when a mutation arises that stops them giving something for nothing, it should spread rapidly. The Argentine ant in Europe could thus provide an interesting test of natural selection in action.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Eradicating polio

Kalashnikovs and coolboxes

Apr 18th 2002 | BAIDOA
From The Economist print edition

The war against polio is almost won. But the virus still lingers

Get article background

AP

Open wide

AT ONE of Somalia's countless roadblocks, militiamen with Kalashnikovs stop passing vehicles and search for children. A truck approaches, laden with timber and passengers, among them several mothers with infants. The militiamen order them to dismount; and they refuse to let the truck proceed until all the children have been vaccinated.

In the struggle against polio, the World Health Organisation (WHO) has forged some strange alliances. The disease paralyses children and sometimes kills them, by causing their lungs to seize up. In 1988 it infected an estimated 350,000 people. Since then, 2 billion children have been immunised under the auspices of the WHO's Global Polio Eradication Initiative. On April 16th, the WHO announced that only 537 cases had been reported in 2001, and the true figure is thought to be no more than double that.

Like smallpox, polio could be completely eradicated. The wild polio virus cannot survive long outside its human host, so if enough people are vaccinated, it has nowhere left to hide. The WHO hopes to achieve this by 2005, having failed to fulfil a previous vow to do it by 2000.

Polio persists in ten countries, all of them poor. In places such as India, Egypt and Nigeria, many children are not vaccinated because local health services are cash-strapped and ineffectual. In others, such as Afghanistan, Angola and Sudan, this problem has been aggravated by war.

Somalia is a particularly tough spot. It has been shredded by civil war since 1991. There is no state, unless you count a “transitional national government” that controls a few streets in the capital, Mogadishu. The rest of the country is controlled by warlords who, as the Americans discovered in 1993, are difficult to deal with. Yet somehow the anti-polio campaigners have managed it.

In each area, they seek the local warlord's permission before carrying out hut-to-hut vaccinations. They are careful to hire members of all the big local clans to help, and to rent the cars they need—but no more—from whomever the local warlord nominates. The cars come with drivers and Kalashnikov-toting guards, but cannot be used to transport vaccines over long distances. If driven to a rival clan's territory, they are liable to be hijacked.

In Somalia, the men with guns make the rules. The WHO has to adapt to this, just as the locals do. Somali women make money by building stick-and-plastic shacks at roadblocks and selling tea to waiting travellers. The WHO has followed suit, placing a vaccinator with a coolbox at every possible roadblock to catch peripatetic children. In their own bossy way, the men with guns thus help.

Around Baidoa, a town in the south of the country, inoculators squeezed droplets of vaccine into babies' mouths for three days last week with barely a hitch. Baidoa is in a relatively stable part of Somalia: it changed hands three times between 1991 and 1999, but has been peaceful for three years, apart from the daily cacophony of bored young men firing their submachineguns into the air for fun.

Some parents refuse to vaccinate their children. Rumours proliferate, including the idea that the vaccine is un-Islamic, or that it gives you AIDS. But the WHO persuades the reluctant by getting people from

their own clans to talk to them, and driving trucks around broadcasting pro-vaccine messages over loudhailers.

To reach more dangerous areas, the vaccinators wait for a gap in the fighting, and then pounce. There is a polio officer in every district. Some sleep in a different house each night to avoid kidnap, for people with foreign employers are assumed to be rich. Whenever it looks safe enough to fly in the coolboxes, they shout. With luck, their task is nearly done: no new infections have been reported in Somalia this year.

Somalia is only a small battlefield in the campaign against polio. India and Nigeria, with their vastly greater populations, harbour many more polio cases. But if inoculators can succeed where even the American marines could not cope, there is hope that polio will soon exist only in special cultures in laboratories. The campaign needs another $275m, but once the virus is gone, all the money now spent on polio can be used for other things.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The sinking of the Lusitania

In harm's way

Apr 18th 2002
From The Economist print edition

Corbis

It was a step towards total war, though few could see it at the time

ON MAY 1st 1915, eight months into war, a 30,000-tonne British liner, *Lusitania*, pulled out of New York harbour bound for Liverpool. The pride of the Cunard fleet, she carried 1,257 passengers (among them 128 Americans), 702 crew and an estimated three stowaways. Her cargo manifest, a source of controversy later, included small-arms cartridges, uncharged shrapnel shells, cheese, furs and, oddly, 205 barrels of oysters.

Though to save coal Cunard had shut down her fourth boiler-room, it was reckoned she could outrun any German submarine even at the reduced speed of 21 knots. Most voyagers had scoffed at warnings from the German embassy published in the New York press and posted at the pier gates not to cross the Atlantic under a belligerent flag. Once at sea, they had, with few exceptions, voiced no complaint at the farcically inadequate lifeboat drills.

Seven days later, 10 miles off the southern coast of Ireland, a submerged German U-boat hit her amidships with a single torpedo. Using his discretion under German rules of engagement, Captain Walther Schwieger had struck without warning. Though there were lifeboats aplenty—the lesson of the *Titanic* was well learned—most were unlaunchable because of the ship's sudden list, made worse as water poured through lower-deck portholes, opened for air despite earlier orders to close them. The *Lusitania* sank in 18 minutes, with a recorded loss of 1,201 lives.

These are the bare facts of a maritime atrocity that in historical legend dragged a reluctant America into the first world war. The shock was widespread. Under so-called cruiser rules, an enemy's merchant ships were traditionally fair game in wartime only if crew and passengers were given time to take to boats. Yet despite justifiable outrage, the aftermath was rather different from legend, as these two thorough and readable accounts remind us.

The Germans apologised and offered compensation (they eventually paid $2.5m). In the same breath they laid ultimate blame for the growing carnage at sea on Britain's blockade of German shipping. They charged also that, contrary to

Lusitania: Saga and Myth
By David Ramsay

Norton; 308 pages; $29.95.
Chatham Publishing (September 2001); £20

Buy it at
Amazon.com
Amazon.co.uk

Lusitania: An Epic Tragedy
By Diana Preston

Walker; 532 pages; $28

Buy it at
Amazon.com

Amazon.co.uk

American law, the *Lusitania* had been carrying Canadian troops and—those dubious oysters?—heavy munitions, whose explosion had doomed her. Nevertheless, the ever-mercurial kaiser, who in February had approved unlimited submarine warfare, now ordered U-boats not to attack passenger ships.

Woodrow Wilson's administration hesitated, split as it was between hawks and doves, sending Berlin three discordant notes in as many months. The sinking deepened American hostility towards Germany. But most Americans did not want war, and it was almost another two years before America did come in.

The British authorities tried, with behind-the-scenes ruthlessness, to impugn Captain William Turner, one of Cunard's most experienced officers. An overstretched Admiralty was anxious to shift blame for what it feared politicians and the press—not to forget potential claimants—would treat as an avoidable calamity. The Admiralty was right to feel vulnerable: it had failed to provide an escort for the *Lusitania*, to give her adequate warning of U-boat activity or to explain clearly how to avoid the danger.

Egged on by its civilian boss, Winston Churchill, the Admiralty began a whispering campaign to discredit Turner's seamanship. At the inquiry under Lord Mersey, the government had Edward Carson and F.E. Smith, the two most feared legal attack sharks of the day. They duly made a fool of Turner in the witness box. But Mersey, a shrewd old judge who had chaired the *Titanic* inquiry, read the Admiralty's game. He commended Turner and pointed a commonsensical finger at Germany.

Despite nearly 90 years of speculation and counter-theory, these two books broadly concur with the Mersey findings. Both set their stories against a background of diplomacy, war and Anglo-German naval competition, though they reach their similar conclusions by different routes.

David Ramsay, whose study of the disaster came out last year in Britain and now appears in the United States, is the more forensic. Charge by charge, he rebuts the Admiralty's case against Turner. Contrary to instructions, he had, he admitted, cut speed to 18 knots, not zig-zagged and come near shore. But on each point, Turner could defend himself: he had slowed so as not to have to wait for the tide outside Liverpool, a sitting duck; zig-zagging was not proven protection; and the Admiralty's advice—U-boats lurk mostly near shore, mostly at mid-channel—was a naked self-contradiction. Besides exculpating Turner, Mr Ramsey also exposes several persistent myths: there were no heavy munitions, no devastating second explosion (rifle rounds were found to burn harmlessly like fire-crackers, and not detonate), no Canadian troops and no British plot to sacrifice a ship to bring America to war.

Diana Preston takes a more personal approach. She has mined recollections by survivors to create a harrowing picture of those 18 minutes, her centrepiece. This was in theory a good idea. Disasters evoke powerful, if contrary, emotions: horror, fascination, sympathy—and wondering how well we would do. Unfortunately, the names of victims blur, it being hard in non-fiction to take us inside people's heads during a panic. Novels—think of Joseph Conrad's *Lord Jim*—tend to do it better.

A related problem is documentary balance. Nobody volunteers for the record: “She was struggling with her lifebelt, so I snatched it away, pushed her aside and leaped into the boat.” Shame and silence are cousins, as Ivan Turgenev, perhaps the finest psychologist among the great 19th-century Russian writers, knew from his own experience: he spent a lifetime denying that, during a shipboard fire, he had scrambled into a lifeboat shouting, “Let me on, I'm my mother's only son!”

In other respects, Ms Preston, like Mr Ramsay, is commendably historical. Both authors record that the *Lusitania* was a sickening extension of warfare to the civilian sphere, a step towards a form of total war that would become the norm as the century wore on. Yet neither pretend that the participants could have seen this at the time—a recognition of the melancholy rule that the wars people start are seldom the wars they end up with.

Lusitania: Saga and Myth.
By David Ramsay.
Norton; 308 pages; $29.95.
Chatham Publishing (September 2001); £20

Lusitania: An Epic Tragedy.
By Diana Preston.
Walker; 532 pages; $28

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Writers' lives

Breadth doesn't mean depth

Apr 18th 2002
From The Economist print edition

IT WAS fitting in its way that Aldous Huxley should die on the day John Kennedy was shot. From the moment he was born in 1894 Huxley had a knack of turning up wherever history was being made. As the grandson of Darwin's bulldog, Thomas Huxley, and the great nephew of Matthew Arnold, he seemed to embody the double inheritance of the Victorian age. Decades before C.P. Snow was worrying about the two cultures, Aldous Huxley was actually living, and trying to resolve, the enduring tensions between science and art.

As a young man he hung around the fringes of Bloomsbury, as a middle-aged one he experimented with LSD. There was nothing that did not interest him and no one of note he did not know. A man of erudition, lightly worn, Huxley seemed to represent all that was best about English intellectual life.

Aldous Huxley: An English Intellectual
By Nicholas Murray

Little, Brown; 496 pages; £20

Buy it at
Amazon.co.uk

This, certainly, is how Huxley's biographer, Nicholas Murray, sees him. Mr Murray's self-appointed task is to reclaim the significance and status of a man whose high amateurism, as he calls it, was looking ever more out of date in an age when the pursuit of knowledge was becoming a monopoly of university departments. Huxley's ability to knock out Hollywood scripts for Greer Garson while still thinking seriously about man's place in the universe (a universe which had been unravelling ever since his grandfather and Darwin had entered the public fray 80 years earlier) has not, by and large, recommended him to posterity. Today Huxley is remembered, if at all, for writing the bold cartoon that is “Brave New World”, for seeing out the second world war in America and for coining the term “psychedelic”.

Given Mr Murray's seriousness of intent, it is interesting to note how he deals with the one truly new bit of information that he has to offer about his subject. Although it has long been whispered that Huxley's wife Maria was bisexual, this is the first time that the full extent of her wanderings has been revealed. In fact, the story turns out to be positively baroque. For a period of several years Maria was having an affair with Mary Hutchinson, who also doubled as the mistress of Clive Bell. Huxley, meanwhile, was passionately in love with Mary, while still staying strongly bonded to his wife. The upshot was that the two women plus Huxley—Bell seems to have been rather sidelined at this point—set up a ménage à trois that was remarkable for its harmony.

In anyone else's hands this revelation would achieve a screaming prominence, but Nicholas Murray takes care to integrate the material into the main arguments of his book. Huxley's unusual marital arrangements were entirely consistent, suggests his biographer, with his desire to live as thoughtfully and truthfully as possible. It is a kind interpretation, though not one which will be shared by those who continue to view Huxley as a self-interested pragmatist who could be counted on to take the path of least resistance.

Aldous Huxley: An English Intellectual.
By Nicholas Murray.
Little, Brown; 496 pages; £20

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Selling lifestyle

The two faces of Martha

Apr 18th 2002
From The Economist print edition

MARTHA STEWART is a puzzle, at least to Christopher Byron. The diva of domesticity, the most influential lifestyle authority in America, she has in many ways been a spectacular success. Her TV shows, books and magazines explaining how to prepare dinner for 20 and re-tile the roof before breakfast, have led a generation of women to aspire to domestic excellence: where they, like Martha, can run a dream home and be fulfilled. A girl from an impoverished family of Polish immigrants, she has turned herself into a brand. She is the first female stockmarket billionaire to run her own multi-media empire, a woman so famous that her name has become an adjective, as in “very Martha” or “a Martha moment”.

The problem, argues Mr Byron, a New York business journalist, is that her domestic self and the image of domesticity she sells could scarcely be more different. Relentless perfectionism, ambition and passion for control that drove her to the top, combined with a legendary temper, have alienated her family and friends, he tells us, and reduced her, in many eyes, to a hypocritical self-parody.

Studying the two faces of Martha makes for a good, if opinionated, read. Disobliging fly-on-the-wall stories come from diverse sources, though you wonder about the motives of a former (and bitter) husband, who spilled a lot of beans to Mr Byron. You wonder, too, about the oddity of that conflict between home-life and achievement, which, for businesswomen especially, is hardly unique to Ms Stewart.

All the same, Mr Byron finds much to admire, unlike Jerry Oppenheimer, who in “Just Desserts” portrayed her as an almost diabolical liar and fake. Ms Stewart is a desperately hard worker, who thinks nothing of rising at dawn to feed 120 chickens and double-spade the flowerbeds. She is indeed a formidable businesswoman. She invented the personally branded “me-zine” magazine—now much imitated by the likes of Oprah Winfrey. Long before media empires such as Time Warner twigged, she saw the potential of cross-promotion between print, television and the Internet. And she pulled off one financial coup after another—in particular getting her own goods at K-Mart, which made her a household name but cost the now bankrupt retailer a fortune. Mr Byron leaves the commercial question to the end—can Ms Stewart survive the failure of K-mart, which, he contends, accounts for almost all her company's profits?

Ms Stewart, not surprisingly, refused to co-operate with Mr Byron. She plans to publish her own story next year.

Martha Inc: The Incredible Story of Martha Stewart Living Omnimedia.
By Christopher Byron.
John Wiley; 416 pages; $27.95 and £20.95

Martha Inc: The Incredible Story of Martha Stewart Living Omnimedia
By Christopher Byron

John Wiley; 416 pages; $27.95 and £20.95

Buy it at
Amazon.com
Amazon.co.uk

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

American and Brazilian bestsellers

What the world is reading

Apr 18th 2002
From The Economist print edition

Errant priests, all human life and airport potboilers

CAN it be coincidence that, amid sex-abuse scandals in the Catholic church, two books on Brazil's current fiction bestseller list are about errant priests? “Diario do Farol” (Lighthouse Diary), by Joao Ubaldo Ribeiro, a much-read Brazilian writer, revels in the unrepentant confessions of a priest with a past, while P.D. James's “Morte no Seminario” (published in English as “Death in Holy Orders”) lifts the lid on all manner of ungodly goings-on in a monastery in present-day Britain. Come to think of it, the number-one book—short stories about lying men—is also à propos. On Brazil's non-fiction list, the range of interest looks as capacious as life itself: science, mythology, sex, jokes, music, office work and punishment.

In the United States, the fiction list at first glance is an unremarkable catalogue of airport reading. But some titles stand out. Stephen King's collection of short stories, “Everything's Eventual”, ought to persuade those who don't know it already that he is a master of the form.

As for non-fiction, Michael J. Fox, the star of “Back to the Future” (1984), describes what it is to have Parkinson's disease. Michael Moore, America's favourite anti-corporate prankster, has scored a popular hit with “Stupid White Men”, a mocking look at Presidents Clinton and Bush, and the boardrooms that helped pay for their election. “Report from Ground Zero”, by contrast, is a moving account by a former fireman who volunteered to help clean up the sad wreckage after September 11th.

Bestsellers

	BRAZILIAN FICTION	BRAZILIAN NON-FICTION
1	**As Mentiras que os Homens Contam** *by Luis Fernando Verissimo* Short stories about mendacious men	**O Universo numa Casca de Noz** *by Stephen Hawking* Pop science plus fab pics
2	**Diario do Farol** *by Joao Ubaldo Ribeiro* Confessions of a wicked priest	**Estaçao Carandiru** *by Drauzio Varella* Life inside Brazil's biggest jail
3	**Os Cem Melhores Contos de Humor** *by Flavio Moreira da Costa* Comic anthology	**A Vida Sexual de Catherine M.** *by Catherine Millet* French art journalist describes her sex life
4	**Harry Potter e a Camara Secreta** *by J.K. Rowling* More Harry and more wizardry	**Uma Mente Brilhante** *by Sylvia Nasar* Life of Nobel prizewinner John Nash
5	**O Senhor dos Aneis** *by J.R.R. Tolkien* Classic fantasy	**O Livro de Ouro da Mitologia** *by Thomas Bulfinch* Introduction to Greco-Roman mythology
6	**Harry Potter e a Pedra Filosofal** *by J.K. Rowling* Harry starts wizard school	**O Outro Jesus Segundo os Evangelhos Apocrifos** *by Antonio Piñero* Jesus: the apocryphal version
7	**Harry Potter e o Calice de Fogo** *by J.K. Rowling* Harry in wizard tournament	**As Melhores Piadas 4!** *by Casseta and Planeta* TV comedy troupe's latest book of gags
8	**O Diario da Princesa** *by Meg Cabot* Even royal teens get the blues	**O Livro das Religioes** *by Henry Notaker, Jostein Gaarder and Victor Hellern* Man's mystical side
9	**Contos Inacabados** *by J.R.R. Tolkien* Unfinished tales	**A Onda que Se Ergueu no Mar** *by Ruy Castro* Stories from the heyday of the Bossa Nova
10	**Morte no Seminario** *by P.D. James* Bad guys in cassocks	**Jack Definitivo** *by Jack Welch* From the locker room to the GE boardroom

	AMERICAN FICTION	AMERICAN NON-FICTION
1	**Three Fates** *by Nora Roberts* Suspense, romance and stolen art	**Lucky Man: A Memoir** *by Michael J. Fox* Living with Parkinson's disease
2	**The Nanny Diaries** *by Emma McLaughlin and Nicola Kraus* Mary Poppins goes to Manhattan	**Knight: My Story** *by Bob Knight* Basketball coach goes through hoops
3	**Everything's Eventual** *by Stephen King* Short scary stories	**A Mind at a Time** *by Mel Levine* Identifying your child's learning patterns
4	**The Summons** *by John Grisham* Latest legal thriller	**Self Matters** *by Phillip C. McGraw* Looking out for number one
5	**OAtonement** *by Ian McEwan* Perils of storytelling	**The Healthy Kitchen** *by Andrew Weil and Rosie Daley* Wholesome recipe book
6	**Body of Lies** *by Iris Johansen* Killer thriller	**Stupid White Men** *by Michael Moore* What's wrong with America today
7	**2nd Chance** *by James Patterson* The Women's Murder Club reconvenes	**The Wisdom of Menopause** *by Christiane Northrup* A psychospiritual approach to hot flushes
8	**Widow's Walk** *by Robert B. Parker* EvLatest Spencer mystery	**Who Moved My Cheese?** *by Spencer Johnson* Million-selling self-help book
9	**The Golden One** *by Elizabeth Peters* Murder among the pyramids	**Body for Life** *by Bill Phillips* Three months to total health
10	**Midnight Runner** *by Jack Higgins* Terrorists block the world's oil supply	**Report from Ground Zero** *by Dennis Smith* A former firefighter's account

Sources: *Veja; Publishers Weekly* Descriptions by *The Economist*

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The rebirth of Italian film

The moment is now

Apr 18th 2002
From The Economist print edition

Italian cinema is on its best form for more than 30 years

PA

Sandra Ceccarelli, pearl of Italy's screens

FORGET Italy's minister of culture, who says his country's films stink. A new generation of Italian directors is emerging that recalls the golden age of neo-realism 50 years ago, and some film makers who came to the fore then or soon after have staged remarkable comebacks. Luciano Emmer, who is 84, has just made his first film in ten years, while in “Il mestiere delle armi” (“The Profession of Arms”), the 70-year-old Ermanno Olmi has delivered one of the most majestic pictures of his career.

Nanni Moretti, who won the top prize at the Cannes film festival last year for “La stanza del figlio” (“The Son's Room”), is only one of several promising young Italian directors. No less powerful, despite being less well known outside Italy, is Giuseppe Piccioni. “Chiedi la luna” (“Ask for the Moon”, 1991) and “Fuori dal mondo” (“Not of This World”, 1999) established him as a realist with a profoundly human touch. “Luce dei miei occhi” (“Light of My Eyes”), his latest film, is his finest so far.

It is a calm yet intensely affecting story of a single mother and the chauffeur who befriends her after nearly running over her daughter while she is out looking for her runaway cat. Superficially the two have little in common and she remains deeply suspicious of his intentions towards her, and indeed towards the little girl. Slowly, however, two lonely souls form a kind of friendship and perhaps something more.

Mr Piccioni never milks his script for sentiment. Instead of flashy camerawork, he uses very large close-ups—unusual in a wide-screen picture—that enable the audience to catch glances and inflections almost before the characters themselves are aware of them. And in Luigi Lo Cascio and Sandra Ceccarelli, Mr Piccioni has found two young players of great subtlety who perfectly embody the film's unforced tone.

“Le fate ignoranti” (despite a regrettable English title, “Ignorant Fairies”), conceals another fine realist film, made not by an Italian but by a Turkish director based in Rome, Ferzan Ozpetek. Like “Light of My Eyes”, it is about an unforeseen human relationship and adds new depth to what we regard as neo-realism. Unlike the classic films of the 1940s and the 1950s, realism no longer has to embrace misery, poverty and society's underclass; today it can, and does, focus on the middle classes.

Margherita Buy, a leading actress of the new Italian cinema, stars as a doctor who loses her husband in a freak road accident and who must come to terms with some unexpected truths when she discovers that for years he had led a double life as a homosexual. The film takes an unexpected turn when she seeks out her husband's male lover and they become close friends. There is no possibility of a romantic attachment, but by insisting that human ties can be based on something both more and less than sex, Mr Ozpetek makes a touching humanist statement.

Successful women directors, too, are surfacing again in Italy, for more or less the first time since Lina Wertmuller in the 1970s. In “Domani” (“Tomorrow”), Francesca Archibugi offers a poignant study of the impact of an earthquake in a small Umbrian town. Though a little soft-centred in its closing stages, it shows movingly how new love and friendship can be forged among strangers in adversity.

This is the sort of ensemble piece that is much in vogue in Italian cinema; Cristina Comencini's “Il più bel giorno della mia vita” (“The Best Day of My Life”)—a study of three generations of a troubled family—is in the same mould and very much in the bittersweet tradition of this director's work. Daughter of a

respected director, Luigi Comencini, she shares her father's talent for winning memorable performances from gifted actors, including Ms Buy, Mr Lo Cascio and Ms Ceccarelli from “Light of My Eyes” and the redoubtable Virna Lisi, who has graduated from frothy romantic comedies in the 1960s to powerful character parts, such as Catherine de Medici in Patrice Chéreau's 1994 film, “La reine Margot” (“Queen Margot”).

A veteran who is still working is Mr Emmer, whose first film was the neo-realist “Domenica d'agosto” (“Sunday in August”), which was released in 1949 and shows 24 hours in the life of Romans who head for the beach at Ostia in the dog-days of summer. His new film “Una lunga, lunga, lunga notte d'amore” (“A Long, Long, Long Night of Love”) is neo-realism revisited, repeating the formula some 50 years later, with half a dozen stories interacting over the longest night of the year, the winter solstice. Mr Emmer still films as if he were half his age.

Mr Olmi, whose first film “Il posto” (“The Job”, 1961), was also in the neo-realist vein, has evolved into an artist of quite a different order. “The Profession of Arms” is a 16th-century epic with modern overtones. In the story of Giovanni Medici, head of the papal army, who died in 1526 of cannon wounds on the banks of the Po, Mr Olmi finds a portent for the destructive power of warfare today. The world of war, he seems to be saying, took a quantum leap in that period—the kind of blind technological advance in destructiveness that we have become all too accustomed to. Not since 1974 and Robert Bresson's “Lancelot du lac” (“Lancelot of the Lake”) has a historical film made its point with such concentrated power. On screen, the Italians are back.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Hugh Grant

Apr 18th 2002
From The Economist print edition

He is the present-day master of that comic staple, the double take. In a trio of films—“Four Weddings and a Funeral”, “Notting Hill” and “Bridget Jones's Diary”—he delivered the laugh lines of Richard Curtis's scripts with split-second timing, nicely masked by a blithering stutter or a caddish slur. His screen style owes much to an English namesake, the former king of romantic comedy, Cary Grant. Fans of Hugh Grant can see him in a new London-based film revolving around the travails of not-so-young malehood, “About a Boy”. The story is taken from a novel by Nick Hornby, the dean of British laddish fiction, and is directed by two Americans, Chris and Paul Weitz.

Universal Pictures

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

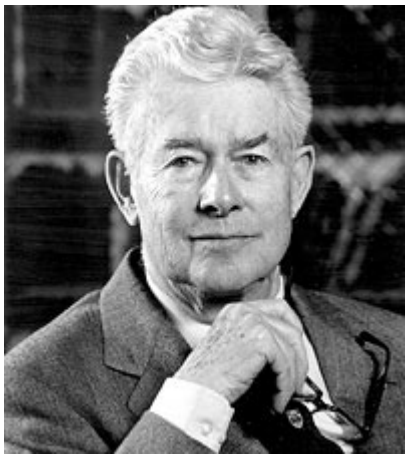
About sponsorship

Frederick Stare

Apr 18th 2002
From The Economist print edition

Frederick J. Stare, defender of the American diet, died on April 4th, aged 91

Kevin Myron



THE United States has become a land of behemoths. Enormous rumps overhang bar-stools, and wheezing giants attempt to cram their blubber into little seats on aeroplanes. One in five Americans is now classed as obese. Genetic misfortune, cries the lobby of the larger-sized. Others spot the reason elsewhere, in soft-drink cups the size of small buckets, sacks of potato chips and all-you-can-eat food counters. In this welter of obesity, Frederick Stare played a role that was both vital and, at times, contradictory.

Dr Stare could be judged as America's top nutritionist. He founded the Department of Nutrition at Harvard's School of Public Health in 1942, when the science was still young, and ran it for 34 years. In his long career, he wrote 18 books and more than 400 articles on how Americans should eat, and frequently advised the government. His founding premise, however, was not that the American diet was bad, but that it was the best in the world. What Americans ate, he believed, could not possibly harm their health.

Not for Dr Stare, therefore, the faddish diets by which the Callista Flockharts and Jennifer Anistons of this world reduce themselves to wraiths. To give up all carbohydrates or all proteins was, he believed, both ridiculous and dangerous. Vitamin supplements were unnecessary for any normal healthy person. Fruits and vegetables were good, but there was no virtue in trying to sustain life on three slices of apple and a lettuce leaf. Nor should any part of the American diet be demonised. Dr Stare leapt to the defence of sugar (“a quick energy food...put a teaspoon in [your] coffee or tea three or four times a day”), Coca-Cola (“a healthy between-meals snack”) and all those nasty Es (“Eat your additives. They're good for you”).

Small wonder, then, that the American food industry thought it had a friend in Dr Stare. Any recommendation he made was bound to please some lobby or other. Manufacturers of corn oil and margarine much appreciated his intervention in the Great Lipids Controversy of the early 1960s, when Dr Stare decided, untypically, to demonise butter, and recommended that all Americans should drink a cup of corn oil a day. The United Egg Producers rejoiced when the doctor, well known for his pioneering studies into the link between diet and heart disease, decreed that a little cholesterol, too, was no bad thing. The American Heart Association, he believed, was “unnecessarily scaring” the public. An egg a day would do no harm.

Dr Stare's delight in, and defence of, the American cornucopia sprang partly from staring malnutrition in the face. At the end of the second world war, he was sent to the Netherlands with two mobile laboratories to determine how best to feed a country where 10,000 had died of starvation. The guidelines for “refeeding” he drew up then recognised the potential goodness of any sort of food, and this common-sense approach stayed with him.

His own background, one could say, was the fat and sweetness of the land. He was born in Wisconsin, America's top dairying state, which has a dairy cow as one of the state animals and a sugar maple as the state tree. As a student of chemistry he was precocious, and it was at Harvard's invitation that he set up his department. Once his interest shifted definitively to food and nutrition, he was seldom out of the public eye. In radio shows and newspaper columns, as well as in projects abroad, Dr Stare kept fighting the faddists and the scaremongers.

In the late 1950s Dr Stare became a leading campaigner for the fluoridation of public drinking water—the natural flipside, his critics would say, of his embrace of sugar. He was mocked for maintaining that

fluoride was not merely a useful chemical, but a nutrient essential to the diet. However, his view prevailed to the extent that 66% of America's drinking water is now fluoridated, adding extra resistance to the country's already perfect teeth.

Water, fluoridated or not, was heavily promoted by Dr Stare. He was the first to recommend the drinking of six to eight glasses a day, to protect the joints from stiffness, aid digestion and keep wrinkles at bay. He had much to do, therefore, with turning blue plastic bottles into fashion accessories. Yet this recommendation, like the daily cup of corn oil, has still not quite entered the mainstream of good health habits. On one website dedicated to health hints, it appears between an assertion that drinking one's morning urine helps jet-lag, and the claim that nasal sprays cause impotence.

In the end, Dr Stare's two watch-words were prudence and moderation. Unfortunately, America does not apply either word to the taking in of food. Shortly before Dr Stare died, the Harvard School of Public Health produced a study definitively linking a diet full of red meat, high-fat dairy products and refined grains to type-II diabetes, which now affects about 16m Americans. It recommended that its subjects—most of them inactive and fat already—should switch to fish, whole grains and fruit. Dr Stare, who understood human nature well, would have recommended a more mixed diet, and one that people were likely to eat. But his reasonable voice was that of the lonely prophet crying on a mountain of burgers, buns and fries, washed by rivers of sticky drink.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Apr 18th 2002
From The Economist print edition

Industrial production is rebounding strongly in the **United States**, as companies start to rebuild their stocks. Output jumped by 0.7% in March, its largest gain in almost two years, but it is still 2.9% lower than it was a year ago. The trade deficit in goods and services widened to $31.5 billion in February, its biggest for almost a year, as imports of cars and consumer goods jumped sharply. The dollar fell to a three-month low against the euro and sterling.

Higher energy costs pushed up America's 12-month rate of consumer-price inflation to 1.5% in March, from 1.1% in February. However, excluding energy and food, prices rose by only 0.1% in March, and the 12-month rate of core inflation fell to 2.4%. This suggests that the Fed will be in no hurry to raise interest rates.

The euro area economies continue to recover. **Germany's** industrial output rose by 0.9% in February, but the figure for January was revised downwards. Output is still 4.8% lower than a year ago. The increase in February was due almost entirely to a rise in construction, thanks to unusually mild weather; manufacturing output fell by 0.4% in the month. **French** industrial production rose by 0.4% in February; it is now only 0.6% lower than a year earlier. French consumer-price inflation rose to 2.1% in March; Italy's held steady at 2.5%.

Standard & Poor's, a rating agency, reduced **Japan's** credit rating on foreign- and local-currency debt to AA minus, putting Japan on the same level as the Czech Republic. This is the third downgrade since November 2001, when Japan lost its AAA rating.

Britain's unemployment claimant count fell in March to its lowest level for more than a quarter of a century, only 3.1% of its labour force. The ILO measure of unemployment remained at 5.1%. The annual rate of growth in average earnings fell to 1.9% in the three months to February, the smallest since 1967. The main reason for this is that bonuses in financial services were much slimmer than a year ago. Britain's underlying rate of consumer-price inflation, excluding mortgage interest payments, rose slightly in March, to 2.3%. But it remained below the Bank of England's 2.5% target.

The Bank of **Canada** became the first G7 central bank to raise interest rates in this cycle. It lifted its overnight funding rate by a quarter-point, to 2.25%.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

Apr 18th 2002
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2002	2003	latest	latest	latest	year ago
Australia	+ 5.2	+ 4.1 Q4	+ 3.8	+ 3.9	+ 2.5 Q4	+ 4.8 Q4	6.3 Mar	6.5
Austria	– 0.3	+ 0.9 Q3	+ 1.2	+ 2.6	– 5.9 Jan	– 3.5 Dec	3.9 Feb	3.4
Belgium	– 0.8	+ 0.1 Q4	+ 1.3	+ 2.9	– 6.5 Feb	– 5.0 Jan	10.8 Mar*	10.3
Britain	nil	+ 1.6 Q4	+ 1.9	+ 2.9	– 5.1 Feb	+ 5.9 Feb	5.1 Feb†	5.2
Canada	+ 2.0	+ 0.9 Q4	+ 2.3	+ 3.5	– 3.5 Jan	+ 5.7 Jan	7.7 Mar*	7.0
Denmark	+ 0.7	+ 0.7 Q4	+ 1.5	+ 2.4	– 1.6 Feb	+ 2.0 Feb	5.1 Feb	5.4
France	– 0.6	+ 0.9 Q4	+ 1.5	+ 2.9	– 0.6 Feb	– 0.4 Feb	9.0 Feb	8.7
Germany	– 1.0	– 0.1 Q4	+ 0.9	+ 2.5	– 4.8 Feb	– 1.1 Feb	9.6 Mar**	9.3
Italy	– 0.8	+ 0.7 Q4	+ 1.3	+ 2.9	– 3.1 Feb	+ 0.2 Jan	9.1 Jan	9.8
Japan	– 4.5	– 1.9 Q4	– 1.0	+ 1.1	–11.5 Feb	– 4.6 Feb	5.3 Feb	4.7
Netherlands	nil	+ 0.4 Q4	+ 1.4	+ 2.7	– 4.0 Feb	– 0.7 Nov	2.2 Mar§	2.2
Spain	+ 0.7	+ 2.3 Q4	+ 2.0	+ 3.2	– 0.2 Feb	na	12.9 Feb	13.2
Sweden	+ 1.4	+ 1.1 Q4	+ 1.7	+ 3.0	– 1.7 Feb	+ 1.7 Jan	4.0 Feb*	4.2
Switzerland	+ 0.1	+ 0.4 Q4	+ 1.0	+ 2.2	– 1.0 Q4	+ 3.8 Feb	2.6 Mar*	1.8
United States	+ 1.7	+ 0.5 Q4	+ 2.5	+ 3.5	– 2.9 Mar	+ 5.9 Feb	5.7 Mar	4.3
Euro area	– 0.2	+ 0.6 Q4	+ 1.3	+ 2.8	– 3.2 Jan	+ 0.7 Jan	8.4 Feb	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 1.8	– 0.9 Q4	na	na	– 7.5 Feb	+ 2.9 Dec	9.4 Feb*	9.8
Greece	na	+ 3.7 Q4	na	na	– 0.8 Jan	+ 6.8 Dec	na	na
Iceland	na	+ 3.1 2001	na	na	+ 2.5 2000	na	2.7 Mar*	1.5
Ireland	na	+ 3.2 Q3	na	na	– 1.6 Feb	– 0.6 Jan	4.3 Mar	3.6
Luxembourg	na	+ 5.1 2001	na	na	– 9.2 Dec	+14.9 Oct	2.7 Jan	2.7
New Zealand	+ 2.6	+ 2.9 Q4	na	na	+ 3.5 Q4	+ 7.4 Q4	5.4 Q4	5.6
Norway	+ 1.0	+ 1.8 Q4	na	na	+ 6.2 Feb	+ 3.4 Feb	3.3 Q4	3.1
Portugal	– 1.0	+ 1.3 Q3	na	na	+ 0.5 Feb	+ 1.1 Feb	4.1 Q4*	3.8

*Not seasonally adjusted. †Dec-Feb; claimant count rate 3.1% in Mar. §Dec-Feb. **EU harmonised rate 8.1% in Mar.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

Apr 18th 2002
From The Economist print edition

% change at annual rate

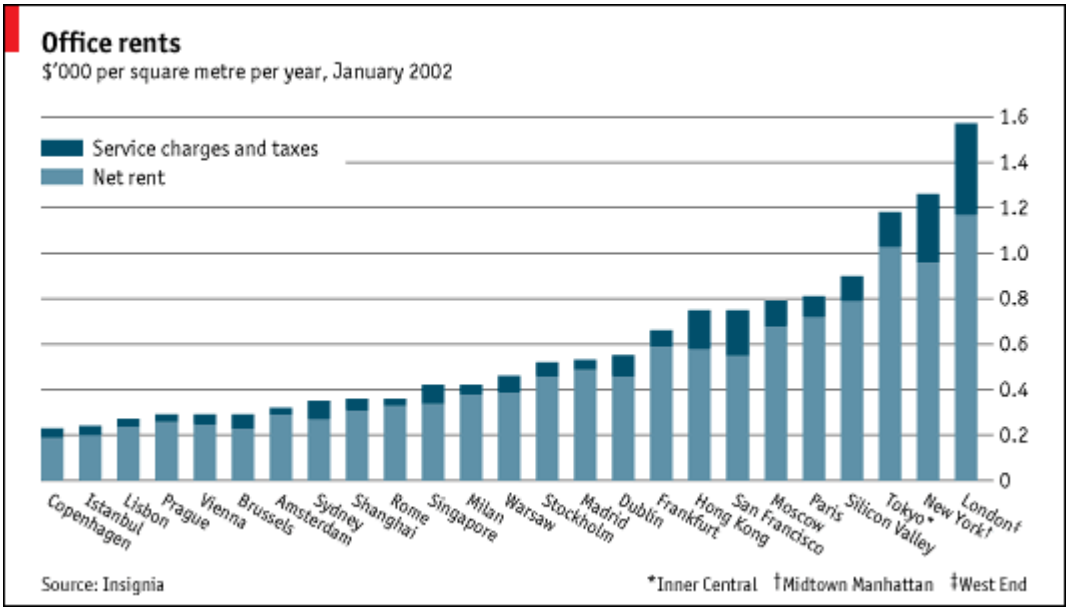
	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 3.1	Q4	+ 5.8	+ 2.5	+ 2.4	– 0.7	Q4	+ 8.4	+ 4.9	Q4	+ 5.4
Austria	+ 1.9	Mar	+ 2.7	+ 1.6	+ 1.7	– 0.3	Mar	+ 2.7	+ 2.5	Feb	+ 2.6
Belgium	+ 2.7	Mar	+ 2.1	+ 1.8	+ 1.7	– 0.6	Feb	+ 4.5	+ 3.1	Q4	+ 1.6
Britain	+ 1.3	Mar	+ 2.3	+ 2.1	+ 2.5	– 0.3	Mar	+ 1.0	+ 1.9	Feb	+ 5.4
Canada	+ 1.5	Feb	+ 2.9	+ 1.3	+ 2.1	– 1.4	Feb	+ 2.6	+ 3.3	Jan	+ 0.9
Denmark	+ 2.6	Mar	+ 2.3	+ 1.9	+ 2.0	+ 0.8	Mar	+ 3.0	+ 4.1	Q4	+ 3.8
France	+ 2.1	Mar	+ 1.3	+ 1.4	+ 1.5	– 1.3	Feb	+ 3.5	+ 4.1	Q4	+ 5.0
Germany	+ 1.8	Mar	+ 2.5	+ 1.4	+ 1.4	nil	Mar	+ 3.3	+ 2.3	Jan	+ 2.5
Italy	+ 2.5	Mar	+ 2.8	+ 1.9	+ 1.9	– 1.4	Feb	+ 5.0	+ 2.8	Feb	+ 2.0
Japan	– 1.6	Feb	– 0.3	– 0.8	– 0.5	– 0.1	Mar	+ 1.0	– 0.3	Feb	+ 0.9
Netherlands	+ 3.6	Mar	+ 4.6	+ 2.9	+ 2.3	– 2.6	Feb	+ 6.6	+ 3.6	Feb	+ 4.4
Spain	+ 3.2	Mar	+ 3.9	+ 2.3	+ 2.4	– 0.2	Feb	+ 3.6	+ 3.7	Q4	na
Sweden	+ 2.9	Mar	+ 1.9	+ 2.2	+ 2.0	– 0.4	Feb	+ 2.5	+ 3.2	Dec	+ 2.7
Switzerland	+ 0.5	Mar	+ 0.9	+ 0.6	+ 1.1	– 1.3	Mar	+ 0.5	+ 1.3	2000	+ 0.3
United States	+ 1.5	Mar	+ 2.9	+ 1.4	+ 2.2	– 1.4	Mar	+ 3.0	+ 3.5	Mar	+ 4.3
Euro area	+ 2.5	Mar	+ 2.6	+ 1.7	+ 1.7	– 1.1	Feb	+ 4.6	+ 3.0	Q4	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.8	Mar	+ 2.8	na	na	– 1.4	Feb	+ 3.2	+ 4.3	Q4	+ 5.0
Greece	+ 4.0	Mar	+ 3.0	na	na	+ 4.3	Jan	+ 5.2	na		na
Iceland	+ 7.5	Apr	+ 4.5	na	na	+ 8.7	Mar	+ 6.0	+ 9.8	Feb	+ 8.2
Ireland	+ 4.8	Mar	+ 5.4	na	na	+ 2.3	Jan	+ 3.8	+ 8.1	Q4	+ 6.4
Luxembourg	+ 2.1	Mar	+ 2.9	na	na	– 2.0	Jan	+ 5.3	+ 3.4	Aug	+ 7.0
New Zealand	+ 2.6	Q1	+ 3.1	na	na	+ 1.8	Q4	+10.7	+ 2.2	Q4	+ 1.6
Norway	+ 1.0	Mar	+ 3.7	na	na	– 4.5	Mar	– 0.1	+ 4.5	Q4	+ 4.3
Portugal	+ 3.2	Mar	+ 5.1	na	na	– 4.9	Feb	+ 6.0	+ 2.4	Apr	na

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Office rents

Apr 18th 2002
From The Economist print edition



In January 2001, office rents in five of the 25 commercial centres in our chart were above $1,000 a square metre. A year later, reckons Insignia, a property consultancy, two had dropped out of that bracket: rents in San Francisco fell by more than half, to $750, and those in Silicon Valley by 40%, to $900. Midtown Manhattan rents also fell, but only by 9%. London's West End remained the most expensive district.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

Apr 18th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Apr 17th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+22.7	+13.6	Feb	4.62	4.91	5.26	6.33	5.68	7.06
Britain	+ 7.1	+ 6.2	Feb	4.13	5.38	4.81	5.22	5.02	6.29
Canada	+14.2	+ 5.5	Feb	2.38	4.61	4.25	5.71	5.57	7.07
Denmark	+ 5.9	+ 6.5	Feb	3.70	5.30	4.48	5.34	5.17	7.02
Japan	+24.4	+ 3.8	Mar	0.03	0.03	0.03	1.40	1.45	1.50
Sweden	+ 8.8	+ 6.2	Dec	4.28	3.95	5.17	5.58	4.95	5.85
Switzerland	+ 7.5	+ 4.6	Feb	1.59	3.26	2.44	3.46	3.40	4.39
United States	+ 7.0	+10.1	Mar	1.82	4.62	3.36	5.22	5.12	6.88
Euro area†	+ 6.1	+ 7.4	Feb	3.40	4.77	4.18	5.11	4.88	5.78

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 5.73%, Japan No.237 1.40%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

Apr 18th 2002
From The Economist print edition

1995=100

	Apr 9th	Apr 16th*	% change on one month	% change on one year
Dollar index				
All items	69.1	68.9	– 2.5	– 0.7
Food	69.3	69.4	– 1.7	+ 3.3
Industrials				
All	68.9	68.3	– 3.6	– 5.7
Nfa†	69.4	68.1	– 2.9	– 2.9
Metals	68.6	68.4	– 4.1	– 7.9
Sterling index				
All items	76.2	75.6	– 3.5	– 1.2
Euro index				
All items	103.8	102.7	– 2.5	– 0.8
Yen index				
All items	96.5	96.2	– 3.0	+ 5.2
Gold				
$ per oz	298.95	298.40	+ 1.7	+14.4
West Texas Intermediate				
$ per barrel	25.57	25.17	+ 0.8	– 9.4

* Provisional. † Non-food agriculturals.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

Apr 18th 2002
From The Economist print edition

Market indices

	Apr 17th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,350.6	3,440.0	3,307.7	+ 0.7	- 2.6	- 0.3	+ 4.6
Austria (ATX)	1,332.3	1,332.3	1,114.4	+ 2.0	-23.3	+16.8	+16.5
Belgium (Bel 20)	2,847.4	2,847.4	2,622.4	+ 3.0	-22.7	+ 2.3	+ 2.1
Britain (FTSE 100)	5,263.9	5,323.8	5,024.1	+ 0.7	-24.0	+ 0.9	+ 0.0
Canada (Toronto Composite)	7,868.1	7,958.1	7,418.1	+ 0.9	-30.9	+ 2.3	+ 3.7
Denmark (KBX)	221.9	233.4	216.8	+ 0.1	-26.5	- 1.3	- 1.6
France (SBF 250)	3,036.0	3,081.9	2,782.5	+ 1.5	-30.9	+ 1.8	+ 1.5
(CAC 40)	4,597.3	4,688.0	4,239.0	+ 1.7	-33.6	- 0.6	- 0.9
Germany (Xetra DAX)	5,318.6	5,462.6	4,745.6	+ 1.0	-34.1	+ 3.1	+ 2.8
Italy (BCI)	1,513.0	1,513.0	1,344.9	+ 2.7	-30.7	+ 5.6	+ 5.3
Japan (Nikkei 225)	11,543.7	11,919.3	9,420.9	+ 2.9	-70.3	+ 9.5	+ 9.8
(Topix)	1,089.6	1,125.4	922.5	+ 1.1	-62.2	+ 5.6	+ 5.8
Netherlands (AEX)	528.8	531.2	478.3	+ 2.6	-24.6	+ 4.4	+ 4.0
Spain (Madrid SE)	844.6	847.4	773.2	+ 3.3	-26.3	+ 2.4	+ 2.1
Sweden (Affarsvarlden Gen)	223.8	236.8	209.9	+ 2.0	-44.1	- 3.3	- 1.5
Switzerland (Swiss Market)	6,691.3	6,694.1	6,105.2	+ 0.2	-20.5	+ 4.3	+ 4.5
United States (DJIA)	10,220.8	10,635.3	9,618.2	- 1.6	-12.8	+ 2.0	+ 2.0
(S&P 500)	1,125.9	1,172.5	1,080.2	- 0.4	-26.3	- 1.9	- 1.9
(Nasdaq Comp)	1,810.7	2,059.4	1,716.2	+ 2.5	-64.1	- 7.2	- 7.2
Europe (FTSE Eurotop 300)*	1,268.1	1,279.7	1,185.5	+ 1.2	-25.6	+ 0.6	+ 0.3
Euro area (FTSE Ebloc 100)*	1,109.6	1,125.1	1,013.0	+ 2.2	-28.4	- 0.2	- 0.5
World (MSCI)†	998.9	1,024.4	937.0	+ 0.7	-31.1	na	- 0.5
World bond market (Salomon)‡	440.3	443.1	430.3	+ 0.5	- 4.2	na	+ 0.2

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

About sponsorship

Trade, exchange rates and budgets

Apr 18th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		Current account % of GDP, forecast 2002	Current account % of GDP, forecast 2003	Exchange rate trade-weighted† Apr 17th	Exchange rate trade-weighted† year ago	Currency units per $ Apr 17th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2001‡
Australia	+ 1.3	Feb	− 9.2	Q4	− 3.5	− 3.7	76.3	69.7	1.86	2.03	2.69	1.65	1.42	0.1
Austria	− 3.3	Jan	− 3.6	Jan	− 2.2	− 2.0	100.2	100.0	1.13§	1.15	1.62	–	0.86	nil
Belgium	+ 11.5	Jan	+ 13.0	Dec	+ 4.8	+ 4.8	98.9	98.5	1.13§	1.15	1.62	–	0.86	nil
Britain	− 47.2	Feb	− 25.1	Q4	− 1.9	− 1.9	107.0	106.5	0.69	0.70	–	0.62	0.53	1.1
Canada	+ 37.6	Feb	+ 18.9	Q4	+ 1.9	+ 2.1	76.6	77.0	1.58	1.57	2.27	1.40	1.20	2.8
Denmark	+ 7.2	Feb	+ 4.1	Feb	+ 2.5	+ 2.3	101.9	101.2	8.37	8.57	12.1	7.43	6.41	2.0
France	+ 4.5	Feb	+ 25.6	Jan	+ 1.8	+ 1.7	101.5	101.1	1.13§	1.15	1.62	–	0.86	-1.5
Germany	+ 90.3	Feb	+ 15.8	Feb	+ 0.3	+ 0.4	98.5	98.0	1.13§	1.15	1.62	–	0.86	-2.5
Italy	+ 8.4	Jan	+ 1.7	Jan	nil	− 0.1	72.4	72.2	1.13§	1.15	1.62	–	0.86	-1.4
Japan	+ 70.1	Feb	+ 90.0	Feb	+ 2.5	+ 2.5	129.1	138.9	131	123	189	116	–	-6.4
Netherlands	+ 22.1	Jan	+ 11.8	Q4	+ 3.7	+ 4.0	97.8	97.3	1.13§	1.15	1.62	–	0.86	1.1
Spain	− 38.5	Dec	− 15.1	Jan	− 2.1	− 1.8	74.2	73.9	1.13§	1.15	1.62	–	0.86	nil
Sweden	+ 13.5	Feb	+ 7.4	Feb	+ 2.3	+ 2.6	76.2	77.0	10.3	10.4	14.9	9.15	7.88	3.8
Switzerland	+ 1.6	Feb	+ 24.6	Q4	+ 9.4	+ 9.5	112.3	107.1	1.66	1.76	2.39	1.47	1.27	na
United States	−423.2	Feb	−417.4	Q4	− 4.2	− 4.5	121.8	120.5	–	–	1.44	0.89	0.76	0.6
Euro area	+ 46.6	Jan	− 6.5	Jan	+ 0.3	+ 0.4	78.6	77.6	1.13	1.15	1.62	–	0.86	-1.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 12.4	Feb	+ 7.5	Feb	na	na	78.0	77.5	1.14§	1.15	1.64	–	0.87	3.7
Greece	− 19.1	Dec**	− 7.2	Dec	na	na	57.4	57.2	1.14§	1.15	1.64	–	0.87	0.2
Iceland	+ 9.3	Feb	− 0.4	Q4	na	na	na	na	99.3	94.3	143	88.2	76.0	-0.2
Ireland	+ 31.9	Jan	− 1.2	Q3	na	na	87.1	86.5	1.14§	1.15	1.64	–	0.87	3.2
Luxembourg	− 2.8	Dec	+ 0.4	Q3	na	na	98.9	98.5	1.14§	1.15	1.64	–	0.87	5.3
New Zealand	+ 0.2	Feb	− 1.6	Q4	na	na	85.7	77.5	2.28	2.49	3.29	2.03	1.74	1.3
Norway	+ 24.6	Mar	+ 22.7	Jan	na	na	100.1	94.5	8.69	9.16	12.5	7.71	6.65	14.3
Portugal	− 14.0	Dec	− 10.2	Jan	na	na	89.2	89.0	1.14§	1.15	1.64	–	0.87	-1.7

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate. §Now using euro only. **Corrected.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

About sponsorship

Tax burden

Apr 18th 2002
From The Economist print edition

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Apr 18th 2002
From The Economist print edition

China reported that its economy grew by an impressive 7.6% in the year to the first quarter. Many analysts, however, reckon that the country's figures notoriously overstate true economic growth. Industrial production is reported to have grown by 10.9% in the year to March. Consumer prices fell over the period by 0.6%. The country's export prowess seems undented: the trade surplus shrank only a bit to $25.5 billion.

India's industrial production grew by 2.3% in the year to February. Industrial output in **Russia** rose by 3.7% in the year to March. In the year to February, Russia also reported a thumping trade surplus, of $45.9 billion.

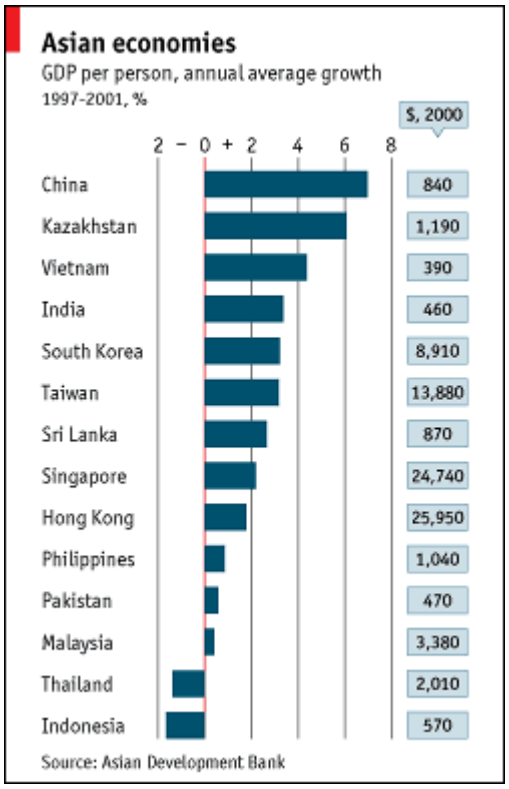
Consumer-price inflation in **Malaysia** jumped to 2.1% in March, up from 1.2% in February. In the year to March, inflation also rose to 6.6% in **South Africa**, and to 4.3% in **Israel**. But **Egypt's** inflation fell to 2.4% in January.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Asian economies

Apr 18th 2002
From The Economist print edition

Asia's economies have been hit hard over the past five years. In 1997 and 1998 several were buffeted by currency and financial crises. In 2001 Asia's exports slumped in the face of the global slowdown. Nonetheless, most of the region's big economies have, on average, grown during this period—though much more slowly than their historical average. Thailand and Indonesia, however, saw their GDP per person shrink between 1997 and 2001, at an annual average rate of 1.4% and 1.7%, respectively.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economy

Apr 18th 2002
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.6	Q1	+10.9	Mar	– 0.6	Mar	+25.5	Mar	+21.2	2001§	220.8	Jan
Hong Kong	– 1.6	Q4	– 9.3	Q4	– 2.3	Feb	– 9.9	Feb	+12.0	Q4	110.2	Mar
India	+ 6.3	Q4	+ 2.3	Feb	+ 5.2	Feb	– 6.0	Feb	– 0.1	Q4	47.7	Feb
Indonesia	+ 4.1	Q4	– 2.2	Q3	+14.1	Mar	+25.9	Feb	+ 4.8	Q3	27.1	Feb
Malaysia	– 0.5	Q4	+ 2.9	Feb	+ 2.1	Mar	+13.9	Feb	+ 6.9	Q4	30.3	Feb
Philippines	+ 3.8	Q4	– 0.5	Jan‡	+ 3.6	Mar	+ 2.6	Feb	+ 4.5	Dec	13.9	Feb
Singapore	– 2.6	Q1	–11.3	Feb	– 0.6	Feb	+ 5.3	Mar	+17.9	Q4	72.1	Feb
South Korea	+ 3.7	Q4	– 2.6	Feb	+ 2.3	Mar	+ 6.6	Mar	+ 8.2	Feb	105.0	Feb
Taiwan	– 2.7	Q4	–11.5	Feb	nil	Mar	+17.5	Mar	+19.0	Q4	125.0	Feb
Thailand	+ 2.1	Q4	+ 2.3	Feb	+ 0.6	Mar	+ 2.9	Feb	+ 6.4	Feb	33.2	Feb
Argentina	–10.7	Q4	–16.5	Feb	+ 7.9	Mar	+ 8.3	Feb	– 4.4	Q4	13.9	Feb
Brazil	– 0.7	Q4	– 1.4	Feb	+ 9.7	Mar	+ 4.4	Mar	–21.3	Feb	35.9	Feb
Chile	+ 1.7	Q4	+ 0.9	Feb	+ 2.6	Mar	+ 1.5	Mar	– 0.9	Q4	14.0	Feb
Colombia	+ 1.7	Q4	– 1.4	Dec	+ 5.9	Mar	+ 0.2	Jan	– 1.2	Q3	10.4	Feb
Mexico	– 1.6	Q4	– 1.8	Feb	+ 4.7	Mar	– 9.7	Feb	–17.1	Q4	47.1	Feb
Peru	+ 3.3	Feb	+ 1.5	Jan	– 1.1	Mar	– 0.1	Jan	– 1.1	Q4	8.7	Feb
Venezuela	+ 2.8	Q3	+ 7.9	Oct	+17.6	Mar	+ 9.8	Q4	+ 4.4	Q4	7.6	Jan
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.4	Jan	– 8.6	Nov	– 0.1	Q4	12.9	Dec
Israel	– 3.4	Q4	– 9.6	Jan	+ 4.3	Mar	– 6.5	Mar	– 1.7	Q4	24.2	Mar
South Africa	+ 1.8	Q4	+ 5.5	Feb	+ 6.6	Mar	+ 3.7	Feb	– 0.2	Q4	6.0	Feb
Turkey	–10.4	Q4	– 4.5	Feb	+65.1	Mar	– 6.7	Jan	+ 3.3	Dec	20.5	Feb
Czech Republic	+ 3.2	Q4	+ 5.8	Feb	+ 3.7	Mar	– 2.9	Feb	– 2.7	Q4	14.6	Mar
Hungary	+ 3.3	Q4	nil	Feb	+ 5.9	Mar	– 2.3	Feb	– 1.4	Feb	9.7	Feb
Poland	+ 0.3	Q4	+ 0.4	Feb	+ 3.5	Feb	–11.3	Feb	– 7.3	Feb	25.5	Feb
Russia	+ 4.9	Q3	+ 3.7	Mar	+17.0	Mar	+45.9	Feb	+35.1	Q4	32.8	Feb
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	– 5.6	Nov	+ 2.5	Jan	– 0.9	Feb	+ 0.3	2001†	3.6	Jan
Saudi Arabia	+ 1.7	2001§	na		nil	Dec	+37.5	2001§	+ 8.3	2001	18.8	Feb

*Excluding gold, except Singapore; IMF definition. ‡New series. †Year ending June. §Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Financial markets

Apr 18th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Apr 17th		Dec 31st 2001	
	Apr 17th	year ago	Apr 17th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.9	na	1,717.5	-1.9	+ 0.3	+ 0.3
Hong Kong	7.80	7.80	11.2	2.05	11,090.6	+4.2	- 2.7	- 2.7
India	48.9	46.9	70.2	5.84	3,421.8	-1.7	+ 4.9	+ 3.4
Indonesia	9,430	10,945	13,756	17.24	542.3	+1.6	+ 38.3	+ 52.6
Malaysia	3.80	3.80	5.46	3.25	792.1	+2.3	+ 13.8	+ 13.8
Philippines	51.0	50.1	73.1	6.13	1,404.4	-0.4	+ 20.2	+ 21.7
Singapore	1.83	1.80	2.64	0.88	1,771.3	+3.3	+ 9.1	+ 10.2
South Korea	1,314	1,315	1,901	4.79	930.5	+8.7	+ 34.1	+ 34.1
Taiwan	34.9	32.9	50.2	2.55	6,390.7	+5.5	+ 15.1	+ 15.4
Thailand	43.3	45.3	62.4	2.25	390.7	+4.8	+ 28.6	+ 31.2
Argentina	2.84**	1.00	3.96	na	368.7	-5.7	+ 24.8	- 56.0
Brazil	2.31	2.18	3.26	18.40	13,732.0	+2.2	+ 1.1	+ 1.1
Chile	645	598	920	4.32*	5,255.7	-0.5	- 2.6	- 0.2
Colombia	2,263	2,318	3,239	10.39	1,139.8	+0.8	+ 6.4	+ 7.1
Mexico	9.17	9.17	13.0	5.72	7,574.4	+0.8	+ 18.9	+ 18.9
Peru	3.43	3.56	4.94	2.40	1,276.5	-1.4	+ 8.6	+ 9.1
Venezuela	891	711	1,279	33.83	6,956.3	+0.7	+ 5.9	- 9.9
Egypt	4.63	3.88	6.65	7.20	5,257.0	-0.6	- 0.3	- 1.5
Israel	4.80	4.17	6.82	2.73	375.8††	-0.5	- 15.9	- 22.7
South Africa	11.2	8.16	16.1	11.20	11,400.2	+1.4	+ 9.2	+ 17.3
Turkey	1,305,000	1,247,500	1,868,106	46.00	12,263.3	+1.9	- 11.0	- 0.8
Czech Republic	34.1	39.4	49.6	4.27	451.8	+0.7	+ 14.5	+ 19.4
Hungary	273	307	396	8.45	8,759.9	+1.4	+ 22.8	+ 23.7
Poland	4.05	4.03	5.87	10.18	15,127.8	-0.7	+ 8.7	+ 6.1
Russia	31.2	29.0	44.8	23.00	376.1†	+2.3	+ 47.9	+ 44.6
EMF (MSCI)‡	1.00	1.00	1.44	na	364.0	+3.9	na	+ 14.7
EMBI+§	1.00	1.00	1.44	na	218.0	+0.8	na	+ 8.8

*New series. †In $ terms. †† Apr 15th. ‡Emerging Mkts Free. §J.P. Morgan Chase's Emerging Mkts Bond Index Plus. **Fixed official rate 1.40.
Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.